JULY 10

Q3

Central Bank Quarterly Bulletin

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

© Central Bank of Ireland 2010

Contents

Section 1

Forecast Summary Table 6

Comment 7

The Domestic Economy 9

Box A: Recent Developments in Irish Core Services Inflation 22

Box B: Developments in the Level and Composition of Net Factor Inclome Flows 30

Monetary and Financial Market Developments 37

Box 1: The First Transfers to the National Asset Management Agency 39

Box 2: The Irish Results of the Euro Area Bank Lending Survey, Q2 2010 45

An Timpeallacht Gheilleagrach 49

Developments in the International and Euro Area Economy 53

Box 1: Stabilisation Measures in Europe 56

Box 2: An Overview of Euro Area Enlargement, Recent Developments and Outlook 59

Section 2

The Impact of Oil Prices on Irish Inflation 66

Derry O'Brien and Laura Weymes

Section 3

Statistical Appendix

Notes

1. The permission of the Government has been obtained for the use in this Bulletin of certain material compiled by the Central Statistics Office and Government Departments. The Bulletin also contains material which has been made available by the courtesy of licensed banks and other financial institutions.

2. Unless otherwise stated, statistics refer to the State, i.e., Ireland exclusive of Northern Ireland.

3. In some cases, owing to the rounding of figures, components do not add to the totals shown.

4. The method of seasonal adjustment used in the Bank is that of the US Bureau of the Census X-11 variant.

5. Annual rates of change are annual extrapolations of specific period-to-period percentage changes.

6. The following symbols are used:

e	estimated	n.a.	not available
p	provisional	. .	no figure to be expected
r	revised	–	nil or negligible
q	quarter	f	forecast

7. As far as possible, data available at early-July 2010 are included in the Statistical Appendix (Section 3).

8. Updates of selected Tables from the Statistical Appendix, concerning monetary and financial-market developments, are provided in *Monthly Statistics*. Data on euro exchange rates are available on our website at www.centralbank.ie and by telephone at 353 1 2246380.

Originated and Printed by:
Cahill Printers Ltd., IDA Business & Technology Park, Clonshaugh, Dublin 17

Designed by: Red Dog Graphic Design Consultants, 23 Blackpitts, Dublin 8

Cover Photograph: Stuart Bradfield

Enquiries relating to this Bulletin should be addressed to:
Central Bank of Ireland (Publications),
P.O. Box No. 559, Dame Street, Dublin 2.
Phone 353 1 2246278; Fax 6716561,
www.centralbank.ie
Publications@centralbank.ie

ISSN 0332-2645

Forecast Summary Table

	2008	2009	2010(e)	2011(f)
Real Economic Activity				
(Percentage Change)				
Personal Consumer Expenditure	–1.5	–7.0	–1.2	0.9
Public Consumption	2.2	–4.4	–2.0	–3.0
Gross Fixed Capital Formation	–14.3	–31.0	–17.4	–3.6
of which: Building and Construction	–13.6	–34.9	–22.8	–11.0
Machinery and Equipment	–15.3	–19.3	–6.4	8.0
Exports of Goods and Services	–0.8	–4.1	3.3	4.8
Imports of Goods and Services	–2.9	–9.7	–0.3	2.7
Gross Domestic Product (GDP)	–3.5	–7.6	0.8	2.8
Gross National Product (GNP)	–3.5	–10.7	–1.0	2.2
External Trade and Payments				
Balance of Payments Current Account (€m)	–10,169	–4,853	–1,702	783
Current Account (% of GNP)	–6.6	–3.7	–1.3	0.6
Prices, Costs and Competitiveness				
(Percentage Change)				
Harmonised Index of Consumer Prices (HICP)	3.1	–1.7	–1.4	0.9
of which: Goods	2.9	–4.1	–2.3	0.4
Services	3.4	1.2	–0.5	1.4
HICP Excluding Energy	2.6	–1.0	–2.5	0.7
Consumer Price Index (CPI)	4.1	–4.5	–1.2	1.2
Nominal Harmonised Competitiveness Indicator (Nominal HCI)	4.5	1.0	–1.5[a]	n.a.
Compensation per Non-Agricultural Employee	3.5	–0.7	–2.7	1.1
Labour Market				
(% Change Year-on-Year)				
Total Employment	–1.1	–8.1	–3.9	–0.3
Labour Force	0.8	–2.4	–2.1	–0.6
Unemployment Rate (ILO)	6.3	11.8	13.5	13.3
Public Finances[b]				
(% of GDP)				
General Government Balance	–7.3	–14.6	–11.5	–10.0
Government Debt	44.4	65.6	77.9	82.9
Technical Assumptions[c]				
(Annual Average)				
EUR/USD Exchange Rate	1.47	1.39	1.29	1.25
EUR/GBP Exchange Rate	0.80	0.89	0.85	0.83
Oil Price ($ per barrel)	97.7	61.9	76.4	78.7
Interbank Market — Euribor[d] (3 month fixed)	4.6	1.23	0.83	1.26

a Based upon the annual change in the average nominal HCI for the first five months of 2010.
b Department of Finance, corrected for latest NIE accounts.
c The technical assumption made is that exchange rates remain unchanged at their average levels in early-July. Oil prices and interest rates are assumed to move in line with the futures market.
d Euribor is the rate at which euro interbank term deposits are offered by one prime bank to another, within the euro area. Daily data from 30 December 1998 are available from www.euribor.org.

Comment

Developments in the international environment have been mixed over the last few months. On a positive note, although there are ongoing concerns about the strength of the recovery in some countries, the initial recovery in global growth has tended to exceed earlier expectations, partly reflecting the exceptional support from monetary and fiscal policies. It has also become clear, however, that some of these same policies are generating potentially damaging side-effects, in particular, the emergence of high and unsustainable fiscal deficits. When combined with the fragilities that remain in the financial sector, they threaten to slow or, in a worst-case scenario, even derail the international recovery.

The main impact to date has been largely confined to renewed tensions in financial markets, especially those in which governments and banks obtain financing. Several EU countries have been at the centre of these concerns. In the medium term, the only satisfactory policy responses to these developments are fiscal consolidation measures in those countries most affected by increasing public debt, a significant number of which have been announced. In addition, actions to identify and rectify any remaining problems in the financial sector are being taken in the form of stress-tests of banks by European supervisors and associated undertakings by governments to support institutions where needed.

Other measures have also been taken to relieve market tensions, such as the establishment of the European Financial Stability Fund (EFSF) and the ECB's Securities Market Programme (SMP). The latest tensions have, of course, also sparked an examination of how economic governance in the EU might be strengthened in order to avoid similar crises in the future. As far as the immediate impact of these market tensions is concerned, the indications are that, so far, there has only been a limited effect on sentiment, as measured by surveys of firms and consumers, and thereby, on the real economy. In line with this, growth projections for Ireland's trading partners by international agencies have not been affected to a significant degree to date. Considerable uncertainty must surround these forecasts, however, in the current climate.

Turning to domestic developments, the indications are that the economy evolved broadly as expected through the first half of 2010. The performance of the exporting sector strengthened, largely due to a good performance by the multinational sector. This was reflected in first quarter national accounts data that showed significant quarter-on-quarter GDP growth but a small decline in GNP. So-called 'soft' indications, such as purchasing manager surveys, as well as other high frequency indicators, such as industrial production and retail sales, suggest this picture broadly persisted into the second quarter. Overall, these developments are consistent with a gradual positive impulse from the external side of the economy slowly beginning to outweigh a remaining, but diminishing, drag on output from domestic sources.

On the assumption that external demand is not significantly affected by the current strains in financial markets and associated fiscal measures, this general picture would remain valid. In annual average terms and taking account of the latest quarterly data, this suggests an increase in the volume of GDP of about 0.8 per cent this year and a decline of about 1.0 per cent in GNP, followed by growth in the range of 2.2 to 2.8 per cent in both measures next year. Reflecting both the relative weakness of domestic demand and the general pattern that employment lags output developments, employment has continued to fall, although at a diminishing rate. In fact, employment growth is unlikely to fully stabilise before the end of the year and downward pressure on unemployment from this source will likely only gradually emerge through next year.

As well as depending on the external environment, the economy's growth prospects will be influenced by domestic developments, particularly in relation to the three key policy issues at present — the normalisation of the

banking sector, the consolidation of the public finances and the improvement in the economy's competitiveness position. As regards the banking sector, the general deterioration in financial market conditions during the second quarter was a negative development for the sector, as it was in other countries and, despite some improvements, conditions remain difficult. In parallel with the actions at a European level, such as the conduct of stress-tests by European supervisors and the establishment of the EFSF and the SMP, the domestic authorities have received EU approval to extend the guarantee on banks' liabilities in order to support the sector until conditions normalise. The combined effect of these measures, both at European and national level, should support further improvements in market conditions that will allow the process of the normalisation of the banking sector to proceed.

Abstracting from the very substantial but one-off impact of government support to the banking sector, public finance data for the first six months of the year reveal a picture generally in line with expectations. The EU Commission has also confirmed that no further actions are required for this year, over and above those already implemented, to ensure compliance with the adjustment programme already laid out by the government and agreed with the Commission. This programme itself involves significant further tightening of the fiscal position over the agreed consolidation period to 2014. In order to achieve these targets it will be necesary to spell out the details of the consolidation measures, implement them without delay and also to stand ready to take further action if needed. It is critically important that the proposed programme of adjustment is adhered to. Against the background of tougher fiscal adjustment measures being adopted by other EU Member States, early action that has the effect of emphasising the national determination to manage the public finances will help contain borrowing costs on international markets and, ultimately, help to lower the adjustment burden. It is also an important element in supporting the recovery in confidence domestically. In this regard, the recent 'Croke Park' agreement will assist the credibility of the fiscal adjustment programme as well as contributing to a stable industrial relations environment.

The country's competitiveness position continues to improve. Movements in short-term indicators of the economy's relative position, measures such as relative unit labour costs in a common currency, continue to move in the right direction. On most measures, there has been some recovery of the ground lost over much of the last decade up to about 2008 and further gains are projected for this year and next. Some of this improvement, however, reflects sectoral changes in the economy, such as the move away from construction and services to the higher productivity exporting sectors. Abstracting from this, the underlying improvement, while still significant, is not as great and this signals the need for continued wage restraint relative to other countries.

A second element in competitiveness is a set of more structural longer-term features of the economy that enhance its attractiveness as a location for economic activity, whether by inward investors or domestic firms. These features include a business-friendly environment, good economic infrastructure, efficient public services, sufficient competition in the non-traded sector generally and a skilled and adaptable labour force. Both short-term and longer-term aspects of competitiveness need to be addressed simultaneously in order to deliver a positive outcome. For example, if costs in Ireland are out of line with competing economies, then having a skilled labour force will be of little benefit in itself, with increased net emigration the most likely outcome. Similarly, simply driving costs down continually without any investment in a skilled labour force is a recipe for declining rather than improving living standards. Much of the favourable structural features of the economy that were present in the initial stages of strong growth, before the later unsustainable boom years, remain in place now but continued adjustments in relative prices and costs are required to reap the benefits in terms of stronger output and employment growth over the coming years.

The Domestic Economy

Forecast Highlights

- The level of output, as measured by Gross Domestic Product (GDP) is forecast to record a small increase of about 0.8 per cent this year following a decline of 7.6 per cent in 2009. Gross National Product (GNP) is, however, likely to continue to decline this year, albeit at a relatively modest pace of about 1 per cent, compared to a decline of 10.7 per cent in 2009.

- The divergence between GDP and GNP last year and as forecast for this year reflects the impact of significant net factor income outflows which are included in GNP but not in GDP.

- Recently released Quarterly National Accounts data point to a somewhat stronger than expected rebound in GDP and confirm the predominant contribution from exports to the recovery in aggregate demand. Domestic demand, however, continued to contract.

- Next year, with the adjustment in domestic demand expected to have run its course and assuming further momentum in the recovery in external demand, GDP growth is forecast to increase to about 2.8 per cent with GNP increasing at a rate of about 2.2 per cent.

- Total export volumes are projected to increase by 3.3 per cent this year with a further increase of about 4.8 per cent in prospect for 2011. Import demand has been boosted by the recovery in export volumes but remains constrained by the weakness in domestic demand. This improved trade performance should contribute to a significant improvement in the balance of payments with the prospect of a small surplus next year.

- On average, employment declined by 8.1 per cent last year and is likely to decline further, by about 3.9 per cent this year. Some stability should return to the labour market next year reflecting a more reasonable balance between external and domestic sources of growth. However, while likely to be on an upward trend by the end of the year, employment on average is likely to decline slightly by about 0.3 per cent next year. A decline in labour supply has mitigated the impact of lower employment in the rate of unemployment, which is nevertheless expected to increase to an average of 13.5 per cent this year before declining slightly to about 13.3 per cent in 2011.

- The consumer price level is projected to record a further decline this year. The Harmonised Index of Consumer Prices (HICP) inflation rate is forecast to average about –1.4 per cent in 2010, while Consumer Price Index (CPI) inflation is forecast to average –1.2 per cent.

- Annual inflation is set to turn positive during the final quarter of this year but core inflationary pressures are likely to remain subdued into next year, as labour market weakness persists. HICP inflation is forecast to average about 0.9 per cent in 2011, remaining below the euro area average and indicating a further improvement in price competitiveness with respect to our trading partners in the euro area.

Domestic Economic Overview

The Irish economy is undergoing a modest recovery this year following an exceptionally deep and protracted decline in the previous two years. The level of output, as measured by Gross Domestic Product (GDP), is forecast to record a small increase of about 0.8 per cent this year following a decline of 7.6 per cent in 2009. Gross National Product (GNP) is, however, likely to continue to decline this year, albeit at a relatively modest pace of about 1 per cent, compared to a decline of 10.7 per cent in 2009. The gap between GNP and GDP growth reflects the export led nature of the recovery which has, in turn, contributed to an acceleration in net factor income outflows. Recently released Quarterly National Accounts data point to a somewhat stronger than expected rebound in GDP and confirm the predominant contribution from exports to the recovery in aggregate demand. Domestic demand, however, continued to contract in the first quarter of this year due in the main to exceptionally weak investment expenditure and a contraction in public consumption, although the pace of decline in personal consumption consumer expenditure moderated somewhat. Next year, with the adjustment in domestic demand expected to have run its course and assuming further momentum in external demand, GDP growth is forecast to increase to about 2.8 per cent with GNP growth increasing to a rate of about 2.2 per cent.

The recovery in world demand has been somewhat stronger than expected this year, led by robust growth in developing economies and a return to modest growth in advanced economies. Among the advanced economies, the recovery has been most pronounced in North America and Japan, while weak domestic demand has restrained the recovery in Europe. The outlook is for an ongoing recovery in world demand next year, although downside risks associated with ongoing financial turbulence and increased uncertainty regarding fiscal sustainability in advanced economies have increased in recent months. On the basis of most recent projections by international agencies such as the OECD, IMF and EU Commission, real GDP in Ireland's main trading partners, weighted by their shares in Irish exports is projected to recover from a contraction of 3.8 per cent in 2009 to positive growth averaging 1.6 per cent in 2010 and 1.9 per cent in 2011.

Exports, which proved quite resilient during the downturn, have been the main driver of the recovery in overall GDP growth in the early part of 2010. In the first quarter, seasonally adjusted export volumes increased by 6.9 per cent and were up by 5.5 per cent on a year-on-year basis. There was a particularly strong performance in the services sectors where volumes increased on an annual basis by 9.5 per cent. Merchandise exports also increased in the first quarter, by 2.4 per cent year-on-year, although there was a more mixed performance at a sectoral level, with IT exports in particular performing very poorly, mainly reflecting the closing of the Dell plant, while pharmaceutical exports remained robust. Total exports volumes are projected to increase by 3.3 per cent this year with a further increase of about 4.8 per cent in prospect for 2011. Import demand has been boosted by the recovery in export volumes but remains constrained by the weakness in domestic demand. Overall, imports are likely to record a slight decline of about 0.3 per cent this year. However, in line with the expected acceleration in exports and the prospect of a stabilisation in domestic demand, a resumption in import volume growth is likely next year, perhaps in the region of 2.7 per cent. This improved trade performance should contribute to a significant improvement in the balance of payments with the prospect of a small surplus next year.

Following a sharp contraction last year, domestic demand has continued to decline this year, albeit at a moderating rate. Investment expenditure remains exceptionally weak, declining by 30 per cent, year-on-year in the first quarter. While the pace of decline in investment is likely to moderate during the course of the year, a significant contraction of about $17\frac{1}{2}$ per cent in the volume of investment is projected for the year as a whole and a further decline of about $3\frac{1}{2}$ per cent is projected for 2011. In the housing market, leading indicators, such as new house registrations, point to, at most, 12,000 completions this year with the prospect next year of a further decline

to about 10,000 units. Reflecting weak demand conditions and an overhang of unsold stock, commercial construction is also likely to decline significantly this year, with a further more modest decline in prospect for 2011. The impact of consolidation in the public capital programme this year and in the following years will be reflected in a significant reduction in infrastructural investment, although tender price reductions will partly mitigate the impact on volumes.

Consumer expenditure dropped sharply at the beginning of last year and has remained on a moderating downward trend since, reflecting fragile consumer confidence and weak disposable incomes. Although there are increasing signs of improved consumer sentiment, the relatively poor outlook for disposable incomes will weigh on consumer demand for some time. Accordingly, a decline in the volume of consumption of about $1\frac{1}{4}$ per cent is likely this year with the prospect of a return to a modest increase of about 1 per cent in volume terms next year against a background of gradually improving labour market conditions.

The contraction in output over the last two years has led to significant employment losses in virtually all sectors of the economy. The largest employment losses have been in the construction sector, in domestically orientated services firms and in labour intensive manufacturing firms with a high dependence on the UK market. On average, employment declined by 8.1 per cent last year, somewhat ahead of the decline in GDP. Although output is projected to record a modest increase of about 0.8 per cent this year, employment is likely to decline further, by about 3.9 per cent. This reflects the nature of the recovery, which is mainly export-led, and, as a consequence, not particularly labour intensive. Some stability should return to the labour market next year reflecting a more reasonable balance between external and domestic sources of growth. However, while likely to be on an upward trend by the end of the year, employment on average is likely to decline slightly by about 0.3 per cent next year. A decline in labour supply reflecting primarily lower participation rates but also net-outward migration has mitigated the impact of lower employment on the rate of unemployment which is nevertheless expected to increase to an average of 13.5 per cent this year.
A further decline in labour supply is forecast for next year which is likely to outstrip the decline in employment resulting in a modest decline in the rate of unemployment to about 13.3 per cent.

The impact on inflation of both higher internationally traded commodity prices and the euro depreciation against sterling will likely be mitigated by weak domestic factors such that overall inflationary pressures are likely to remain muted during much of 2010. In particular, challenging labour market conditions and declines in disposable incomes will constrain demand and the pricing power of firms. Accordingly, the annual HICP inflation rate is projected to record inflation of about –1.4 per cent this year and the annual CPI inflation rate is projected to be slightly higher at about –1.2 per cent. The annual HICP and CPI inflation rates are likely to turn positive during the final quarter of this year and then average 0.9 per cent and 1.2 per cent, respectively, next year. The risks for the inflation outlook this year and next appear to be broadly balanced and relate in the main to the projected recovery domestically, the evolution of international commodity prices and also the future path of mortgage interest rates.

There has been a marked improvement in price competitiveness with respect to our trading partners in the euro area, due to both lower relative prices and exchange rate developments. In particular, sterling has appreciated significantly against the euro in recent months, which has provided a boost to the competitiveness of indigenous exporters. Following a significant deterioration in the economy's cost competitiveness during the boom period, unit labour costs are falling sharply in Ireland both in absolute terms and relative to our main trading partners. This adjustment is mainly cyclical and reflects the inherent flexibility in the Irish labour market and sectoral shifts in the economy. Meanwhile,

Table 1: Expenditure on Gross National Product 2009, 2010f and 2011f

	2009	% change in		2010f	% change in		2011f
	€ million	Volume	Price	€ million	Volume	Price	€ million
Personal consumption	84331	–1.2	–1.2	82,287	0.9	0.9	83,739
Public consumption	27,718	–2.0	–6.3	25,441	–3.0	–0.2	24,641
Gross domestic fixed capital formation	24,731	–17.4	–4.3	19,551	–3.6	–1.3	18,600
of which:							
• Building and construction	16,586	–22.8	–6.9	11,916	–11.0	–2.6	10,333
• Machinery and Equipment	8,145	–6.4	0.1	7,635	8.0	0.3	8,267
Value of physical changes in stocks	–2,284			–275			900
Statistical discrepancy	748			748			748
Gross domestic expenditure	135,244	–2.9	–2.7	127,752	0.3	0.3	128,628
Exports of goods & services	144,782	3.3	1.1	151,144	4.8	1.1	160,059
Final demand	280,026	0.3	–0.7	278,896	2.7	0.8	288,687
Imports of goods & services	–120,380	–0.3	0.5	–120,596	2.7	0.9	–124,977
Gross domestic product	159,647	0.8	–1.6	158,300	2.8	0.6	163,710
Net factor income from rest of the world	–28,405			–31,237			–33,187
Gross national product	131,242	–1.0	–2.2	127,063	2.2	0.5	130,523

other costs in the economy also show some signs of coming back more into line with trading partners. For example, producer prices charged to businesses for a range of services has fallen quite significantly since early 2008. Overall, there is a substantial on-going improvement in competitiveness which has reversed much of the loss in competitiveness of the previous decade. This progress, if sustained, should help to bolster exports and support a recovery in employment growth in the medium term.

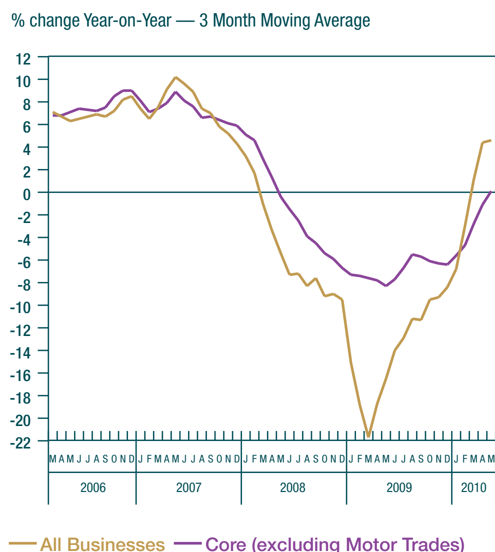
Demand

Consumer Spending

Consumer expenditure declined by 7 per cent last year reflecting the impact of declining disposable incomes and a rise in precautionary savings against a background of an exceptionally weak domestic economy. While adverse weather conditions may have dampened spending at the very outset of 2010, a gradual recovery in consumer sentiment has provided some support to underlying personal consumption growth in the first quarter; on a seasonally adjusted basis, core retail sales (i.e. excluding motor trades) increased by 1.1 per cent, while services consumption also rose modestly. However, the motor trades component was down on a seasonally adjusted basis to such an extent as to maintain overall personal consumption on a slight downward trend. Meanwhile, nominal spending fell annually by 1.1 per cent in the first quarter with the strong price discounting behaviour in evidence last year carrying forward in to the early part of this year. In recent months, there were tentative signs of an easing in the decline in retail prices for goods, with higher commodity prices for energy and food filtering through and the appreciation of sterling raising import prices further, particularly for food. In so far as this weighs on consumers' purchasing power, it may act to push down further on the consumption of items of a more discretionary nature.

Consumption growth in volume terms is likely to remain subdued in the short-term and consumers spending behaviour on the whole remains reasonably cautious. In a notable exception, strong sales figures for new cars are set to bolster the annual goods consumption outturn for the second quarter also. To the extent that car scrappage schemes tend to prompt some consumers to bring forward purchases, there is likely to be some moderation in the contribution of car sales after the expiry of the current scheme in Ireland at the end of this year. Other temporary factors included the impact of the volcano eruption, which impacted on gross tourism numbers mainly in the second quarter. Favourable exchange rate movements may provide some

Chart 1: Index of Volume of Retail Sales



Source: CSO

uplift to domestic tourism spending during the second half of the year; the depreciation of sterling is especially important, as about 60 per cent of tourists to Ireland tend to be from the UK. Overall, personal consumption is forecast to decline by 1.2 per cent, in year-on-year terms, this year. Looking further ahead, a modest pick-up in personal consumption of 0.9 per cent is projected for 2011, in line with some recovery in disposable incomes and a further gradual improvement in consumer sentiment. Spending behaviour is likely to remain somewhat restrained by tighter conditions for consumer credit and households are likely to pay down debt in the face of higher interest rates and challenging labour market conditions.

Investment

The fall-out from the ongoing, aggressive contraction in the level of fixed capital formation continues to delay the recovery in domestic demand. Revised National Income and Expenditure Accounts data confirm that the construction and building sector contracted by 34.9 per cent in 2009. The latest data for the opening quarter of 2010 indicate that the sector has now shrunk by 73.3 per cent in real terms since its peak in the first quarter of 2007, with this contraction having accelerated considerably in the early part of 2010. The sharpest declines continue to emanate from within the residential building sector, which contracted by 41.1 per cent in the opening quarter of 2010 in annual terms, following a decline of 41 per cent in 2009.

Housing completions for the first five months to May, at some 6,000 units, were down almost 50 per cent in annual terms. Given the performance and prospects for house prices, the persistent overhang of supply in the market and ongoing credit constraints, residential investment is forecast to decline by 32.4 per cent this year, (notwithstanding the slight positive impetus from repairs and maintenance). This estimate is predicated on assumed completions approximating to 12,000 in 2010. On the basis of completions tapering off towards about 10,000 units in 2011, residential investment is forecast to contract by a further 6 per cent in 2011.

Non-residential construction also remains weak having contracted by 24 per cent in 2009, with this pace of contraction accelerating into 2010. Given the pervasive weakness of commercial, retail and industrial market fundamentals, together with the constraints in place on government investment under a reduced Public Capital Programme, this weakness is set to persist. Accordingly, non-residential construction investment is anticipated to fall by 15.2 per cent and 13.2 per cent over 2010 and 2011, respectively. Given the poor outlook for both residential and non-residential investment, overall investment in building and construction now looks set to contract by almost 23 per cent, with a further contraction of 11 per cent in prospect for 2011.

Machinery and equipment investment also remains weak having contracted by 16.6 per cent in annual terms in the first quarter of 2010, while overall investment contracted by 30 per cent in annual terms over the same period. However, this pace of contraction is not expected to be sustained throughout the year, with overall investment in 2010 forecast to decline by 17.4 per cent. Although this forecast pace of contraction for 2010 has been revised upwards since the last Bulletin, it is anticipated to moderate to a more muted decline of 3.6 per cent in 2011.

Table 2: Merchandise Trade (Adjusted) 2009, 2010f and 2011f

	2009	% change in		2010f	% change in		2011f
	€ million	Volume	Price	€ million	Volume	Price	€ million
Merchandise exports	77,026	2.1	1.5	79,837	3.5	1.0	83,523
Merchandise imports	–44,659	–5.0	0.7	–42,710	1.1	0.7	–43,485
Merchandise trade balance (adjusted)	32,367			37,127			40,038
(% of GNP)	24.7			29.2			30.7

Stock Changes

Declining stock levels made a negative contribution of 1.4 per cent to GDP last year. Inventories declined further in the first quarter of 2010 and although some recovery is likely by the end of the year in line with improving prospects for output growth, a modest decline for the year as a whole seem likely at this stage. A significant recovery in stock levels is projected for next year.

Government Consumption

Annual National Accounts data show a decline in the volume of Government consumption of 4.4 per cent last year. On the basis of expenditure plans as set out in the 2010 Revised Estimates Volume, Government consumption is projected to decline in real terms by about 2 per cent this year together with a significant decline in the government consumption deflator of about 6.3 per cent reflecting, in part, the impact of reduction in public sector pay rates.

External Demand and the Balance of Payments

Merchandise Trade

The Quarterly National Accounts suggest that the rebound in merchandise export activity in the first quarter of 2010 was quite impressive, with a year-on-year increase of 2.4 per cent in volume terms. According to CSO External Trade Statistics, the buoyant performance of the multi-national sectors, most notably, pharmaceuticals, was the dominant source of merchandise export activity during this period. There were tentative signs of uplift in the performance of the more traditional indigenous exporting sectors, with a year-on-year increase in the food and beverages sector of 4.4 per cent in value terms during the first quarter of 2010.

Chart 2: Value of Exports

Source: CSO Quarterly National Accounts

The first quarter rebound in merchandise exports may partly reflect the ongoing recovery in external demand — world trade volumes increased by 5.1 per cent in the first quarter of 2010 based on the latest available indicator[1]. External demand is expected to strengthen further during the remainder of 2010 and into 2011. The improving outlook for external demand seems set to be complemented by competitiveness gains arising from the lowering of the cost base. Reflecting such a combination of developments, merchandise export growth is estimated to remain buoyant during the remainder of 2010, with an increase of about 2.1 per cent in volume terms for the year as a whole. Such an outlook represents an upward revision relative to that of the previous Quarterly Bulletin due, in particular, to the strength of the first quarter outturn. Merchandise exports are projected to pick up further in 2011 amid

[1] CPB Netherlands Bureau for Economic Policy.

Table 3: Balance of Payments 2009, 2010f and 2011f

€ million	2009	2010f	2011f
Current account			
• Merchandise trade balance (adjusted)	32,367	37,127	40,038
• Services	–8,416	–7,069	–5,495
• Net factor income from rest of the world	–27,901	–30,790	–32,740
• Current international transfers	–901	–970	–1,020
Balance on current account	**–4,853**	**–1,702**	**783**
(% of GNP)	–3.7	–1.3	0.6

strengthening external demand, yielding an annual increase of around 3.5 per cent.

While the pace of decline in merchandise imports continued to decelerate in the first quarter of 2010, the background of weak domestic demand placed significant downward pressure on merchandise import flows, with an annual decline in volume terms of 10.4 per cent. Given the import-intensive nature of Irish exports, the projected recovery in exports is expected to result in a less pronounced falloff in merchandise imports during the year as a whole, with an estimated decline of 5 per cent. Merchandise import flows are expected to record modest growth in 2011 amid stabilising domestic demand and further export-induced demand, with a projected increase of 1.1 per cent. The outlook for merchandise exports and imports suggests that a further improvement in the merchandise trade surplus is in prospect during 2010 and 2011.

Services, Factor Incomes and International Transfers

A volume increase of 9.5 per cent was recorded, year-on-year, in the first quarter of 2010. It should, however, be noted that year-on-year comparisons of services exports in the first quarter of 2010 are somewhat inflated by the 7.6 per cent fall recorded in the first quarter of 2009. At a sectoral level, strong export growth was recorded across a broad range of services export sectors. However, weakness persisted in tourism and travel services, with an annual decline of 26.1 per cent in value terms as poor weather conditions weighed somewhat on the first quarter outturn.

The Services Purchasing Managers Index (PMI) new export orders reading for June 2010 represented the fifth consecutive month during which the rate of expansion accelerated pointing to a strong second quarter performance. As is the case with merchandise exports, the ongoing recovery in external demand and competitiveness gains are expected to boost services export activity in 2010. The prospects for 2011 are for some further strengthening of services exports, assuming that the recovery in world demand is sustained.

Services imports also recovered somewhat in the first quarter of 2010, with an increase of 3.5 per cent in volume terms. In line with the strong performance of multi-national firms, much of this growth related to a pick-up in imports of royalties and licenses as well as trade-related business services. The upward trend in services imports is expected to continue throughout 2010 followed by a further increase in 2011. Nevertheless, services export growth is expected to surpass import growth in 2010 and 2011 and, consequently, it is anticipated that the services trade deficit will narrow during both years.

Net factor income outflows are projected to increase during 2010 largely reflecting stronger export activity across multi-national firms. Indeed, in the first quarter of 2010, net factor income outflows rose by 14.7 per cent in year-on-year terms. A further, albeit less pronounced, increase in net factor outflows is projected in 2011. International transfers were negative in the year to the first quarter of 2010 and are expected to remain negative during 2010 and 2011. Reflecting the projected trends of the various current account components, a deficit of around 1.3 per cent of GNP is expected in 2010. Some further improvement is

Table 4: Industry and Manufacturing Output, Annual Percentage Change

	Industrial Output			
	Modern	Other	Manufacturing	Total Industry
1999	21.3	9.2	15.0	14.8
2000	19.1	9.7	14.6	14.3
2001	16.3	5.5	11.4	11.0
2002	13.0	2.6	8.5	8.2
2003	7.0	4.0	5.6	5.7
2004	0.3	2.5	1.1	1.2
2005	5.2	2.3	4.1	4.0
2006	3.8	1.6	3.1	2.9
2007	6.6	3.0	5.3	5.0
2008	0.4	–4.1	–1.9	–1.8
2009	2.9	–14.4	–3.8	–3.5
2010[f]	3.8	–1.1	1.8	1.7
2011[f]	3.4	–0.4	1.9	1.7
Average 1999-2011	7.9	1.6	5.1	5.0

Note: Output data produced by the CSO now conforms to NACE Rev2 categorisation practices and has been re-based to 2005.

anticipated in 2011, with a projected current account surplus of 0.6 per cent of GNP.

Supply

Industry and Services Output

Provisional data published by the CSO suggest that output in the Manufacturing sector has staged a relatively strong recovery in 2010 relative to its lacklustre performance in 2009, growing by 6.8 per cent in annual terms over the year to end May.

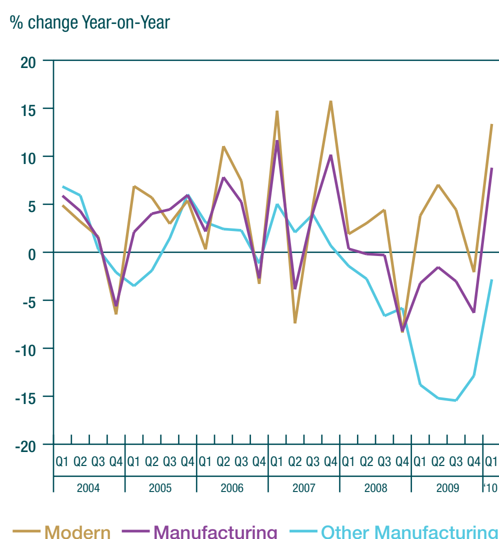
Reflecting a strong performance in the opening quarter of 2010, the modern sector posted growth of 10.4 per cent in annual terms over the five months to May. While the resilience of pharmaceuticals continues to dominate the manufacturing landscape, chemicals notably have recorded a strong rebound. This apparent surge should however be interpreted cautiously as 2009 was a particularly bad year for the chemicals sector. Also within the modern sector, the progressive weakening in Computers and Electronic Equipment has continued to accelerate into 2010 with output down 33.8 per cent for the year to May. Given the relatively muted contribution of this sub-sector in value added terms, this alone is unlikely to dilute the prospects for the modern sector overall. Both trends do however serve to highlight the ongoing reliance on the performance of pharmaceuticals in sustaining output in the modern sector overall.

The particularly sharp fall-off in traditional sector output volumes now appears to have abated, with the rate of contraction having slowed considerably to 2.3 per cent in annual terms in the five months to May. Largely due to the improved performance of the traditional sector, there has been quite a marked turn around in the fortunes of manufacturing sector excluding chemicals and pharmaceuticals, the output of which, at the time of the last Bulletin, was down 18.7 per cent in annual terms, having also contracted in double digits throughout 2009. For the year to end May, contraction in the latter has slowed to 7 per cent in annual terms, having hovered around this level throughout the opening quarter of 2010.

Trends in the NCB Purchasing Managers Index (PMI) over the year to June also suggest output in the manufacturing sector has rebounded, with the index breaching 50 (indicating expansion) in each month since March. Notably, among the sub-components of the index, the rate of increase in new export orders exceeded that of the overall new business index, suggesting that the improvement to date has been driven by external demand.

In terms of outlook, relative to projections at the time of the last Bulletin, the outlook for the modern sector has been revised upwards slightly to 3.8 per cent for 2010. Anticipated growth in the overall industrial sector, at 1.6 per cent for 2010, has also been revised upwards somewhat capturing the lesser drag now

Chart 3: Volume of Industrial Production



Source: CSO

expected to emanate from the traditional sector.

On the basis of the latest Quarterly National Accounts data, in contrast to improvements in the manufacturing sector, output in the services sector performed less strongly, with output in the Other Services and Public Administration sectors contracting in annual terms by 3.3 per cent and 2.9 per cent respectively. More muted declines were posted in the output of the Distribution, Transport and Communications sub-sector with output falling by 1.4 per cent in annual terms in the opening quarter of 2010, the weakest rate of decline since the second quarter of 2008. In contrast to this hard data, the NCB Purchasing Managers Index for Services (excluding retail and wholesale service activities) offers more upbeat, forward-looking evidence of continuing stabilisation in the private services sector, with the index having nudged over the 50 mark in the three months to June, once again driven by particularly strong gains in new export order components.

Agricultural Output

According to final estimates from the CSO's 'Output, Input and Income in Agriculture' release, output in the sector, in volume terms, declined by 3.8 per cent in 2009, representing the fifth consecutive annual decline. In value terms, there was fall in agricultural output of 18.1 per cent or €1.1m, driven mainly by the significant price declines that were experienced over the year, particularly in the prices of milk, cattle and crops. Final price estimates indicate that output prices declined considerably more than input price, resulting in a worsening in the terms of trade for farmers.

These developments have had a dramatic adverse effect on agricultural income (operating surplus in Table 5), which is estimated to have declined by 30 per cent in 2009, following an 11.7 per cent fall in the previous year and is somewhat sharper than the EU-27 average decline of 20.4 per cent. Furthermore, the estimates imply that agricultural income was entirely dependent on net subsidy payments in 2009, and would have otherwise recorded a loss.

The most recent Quarterly National Accounts show that output in the Agriculture, Forestry and Fishing sector (not directly comparable to Table 5) expanded by 1.3 per cent in the first

Table 5: Summary of Agricultural Output and Income 2009[e], 2010[f] and 2011[f]

	2009[b]	% change in			2010[f]	% change in			2011[f]
	€ million	Value	Volume	Price	€ million	Value	Volume	Price	€ million
Goods output at producer prices[a]	4,768	5.2	0.5	4.7	5,016	3.5	1.2	2.3	5,191
Intermediate consumption	4,068	1.2	–0.6	1.8	4,117	2.8	0.9	1.9	4,232
Net subsidies plus services output less expenses	1,835	–1.8			1,802	–0.9			1,786
Operating surplus	1,612	11.5			1,797	4.5			1,878

[a] Including the value of stock changes.
[b] CSO final estimates.

quarter of 2010 when compared to the previous quarter, and followed a 4.5 per cent increase in the last quarter of 2009.

Looking ahead, the outlook for the sector is broadly positive. Demand is expected to gradually recover and global commodity prices are projected to increase over the medium-term. Furthermore, price data for the first four months of 2010 suggest a stabilisation in income is in prospect for this year, with output prices gradually recovering and input costs remaining depressed. However ongoing energy price increases, commodity price volatility and the, as of yet, unknown impact on yields of the severe weather experienced in early 2010, may exert downward pressure on any improvement in farm incomes.

The Labour Market

The scale and speed of the fall in employment, to date, has been dramatic — the employment rate has fallen since the third quarter of 2007 to reach 60.2 per cent in the first quarter of 2010, a level comparable with that of the second quarter of 1998. The contraction in employment, however, moderated somewhat in the first quarter of 2010, with a decline of 0.9 per cent, when seasonal factors are taken into account. This represents the smallest such decline since the second quarter of 2008. Employment losses in the first quarter of 2010 remained broadly based, with quarter-on-quarter declines in eight of the fourteen economic sectors. There was, however, considerable variation in terms of the magnitude of these declines, with employment losses in three sectors, namely, agriculture, construction and administration and support services accounting for in excess of 80 per cent of job losses in the first quarter of 2010. Available indicators suggest that the pace of job losses accelerated somewhat in the second quarter of 2010. The number of persons on the Live Register rose by an average of 4,000 persons per month in the second quarter in seasonally adjusted terms. This represented a considerable acceleration relative to the 1,400 average monthly rise of the first quarter. A further indicator of the second quarter deterioration has been the rise in redundancies — redundancies in June amounted to 6,600, the largest monthly total since January 2010. Given such signs of weakness, the recovery in employment seems set to lag that of output. A decline in employment of around 3.9 per cent is projected in 2010, with further job losses expected in the financial and construction sectors. The general moratorium on recruitment to the public service is expected to place some further downward pressure on employment levels. Employment is projected to be broadly unchanged in 2011, with a decline in the region of 0.3 per cent. It is important to note that the employment outlook for 2010 and 2011 is in line with the projected shift in the composition of growth toward a more export-oriented expansion, which generally tends to be less labour-intensive.

The sharp deterioration in labour demand has had a clear dampening effect on the labour force, as evidenced by the 2.5 per cent, year-on-year, decline in the first quarter of 2010. The downward adjustment continued to be primarily driven by a fall-off in participation — almost 70 per cent of the decline in the first quarter of 2010 was attributable to a fall in participation. The labour force participation rate reached 60.7 per cent in the first quarter of 2010. This represents a decline of 3.9 percentage points from its peak in the third quarter of 2007. A fall in participation amongst younger persons and males has underpinned the sharpness of this decline. Demographic factors, namely, the natural increase and net migration, have also applied downward pressure to the labour force. Until early 2008, demographic factors, primarily net inward migration, had been adding 60,000 or more to the labour force on an annual basis. In the first quarter of 2010, demographic factors contributed around 17,000 persons to the decline in the labour force, with the main demographic response arising from migratory flows.

The falloff in the labour force is expected to continue during 2010 and 2011, with projected declines of around 2.1 per cent and 0.6 per cent, respectively. Weak labour demand conditions are expected to continue to weigh upon labour force participation, with the participation rate expected to fall back further in 2010 and 2011. It is, however, anticipated that the downward adjustment will largely

Table 6: Employment and Unemployment 2009, 2010f and 2011f

(annual average '000)	2009	2010f	2011f
Agriculture	96	86	86
Industry (including construction)	411	372	370
Services	1,422	1,396	1,392
Total employment	1,929	1,853	1,847
Unemployment	258	289	283
Labour force	2,187	2,142	2,130
Unemployment rate (%)	11.8	13.5	13.3

Note: Figures may not sum due to rounding.

reflect the response of migratory flows as outward migration seems set to gather pace during 2010. It is envisaged that a net migratory outflow will also be observed in 2011, albeit of reduced magnitude. As highlighted in previous Bulletins, the outlook for migration is surrounded by a considerable degree of uncertainty as there is no precedent for this in an Irish context.

The fall in the labour force has eased labour market pressures somewhat, by limiting the rise in unemployment, as illustrated by the first quarter decline in the seasonally adjusted unemployment rate to 12.9 per cent. The rise in unemployment has been unevenly distributed, with a noticeable impact upon the gender and age profile of the unemployed. The deterioration in the labour market position of the young has been particularly sharp, with the unemployment rate amongst those aged 15-19 years jumping from 11.7 per cent in the final quarter of 2007 to 30 per cent in the first quarter of 2010. Such an increase considerably outpaced the 8.4 percentage point rise in the overall unemployment rate.

Furthermore, long-term unemployment has risen markedly as the downturn has persisted — long-term unemployment accounted for 40.9 per cent of overall unemployment in the first quarter of 2010. Moreover, the long-term unemployment rate reached a 13-year high of 5.3 per cent in the first quarter of 2010. While the projected further contraction in employment during 2010 is expected to place upward pressure on the unemployment rate, this will be reduced somewhat by the downward movement in labour supply. The unemployment rate is expected to average 13.5 per cent in 2010. A modest reduction in unemployment is projected during 2011, with an average unemployment rate in the region of 13.3 per cent. It is, however, important to note that the envisaged fall in the unemployment rate will solely arise from a further fall-off in the labour force.

Pay

According to the National Income and Expenditure Accounts, compensation per non-agricultural employee declined by 0.7 per cent in 2009, amid weak domestic economic conditions, most notably in the labour market. While such an outturn represents a considerable downward adjustment relative to the 3.5 per cent increase of 2008, the size of the fall was smaller than anticipated.

The CSO's quarterly earnings release provides some insight into the sectoral profile and composition of wage developments in the final quarter of 2009. Whole economy average weekly earnings declined by 0.6 per cent, year-on-year, in the fourth quarter. This fall-off solely related to a cut in private sector earnings of 2.1 per cent; an increase of 0.6 per cent was recorded in the public sector. However, the data does not incorporate the public service pension levy[2]. Average weekly earnings declined across much of the private sector in the year to the first quarter of 2010, largely driven by a 2.4 per cent decline in weekly hours worked annually in the fourth quarter of 2009; average hourly earnings were broadly unchanged over the same period. While the decline in private sector average weekly hours worked was broadly based, contrasting

[2] Average weekly earnings are gross amounts before deductions for PRSI, tax and other levies.

Table 7: Inflation Measures — Annual Averages, Per Cent

Measure	HICP	HICP excluding Energy	Services[a]	Goods[a]	CPI
2007	2.8	2.7	4.4	1.5	4.9
2008	3.1	2.6	3.4	2.9	4.1
2009	–1.7	–1.0	1.2	–4.1	–4.5
2010[f]	–1.4	–2.5	–0.5	–2.3	–1.2
2011[f]	0.9	0.7	1.4	0.4	1.2

[a]Goods and services inflation refer to the HICP goods and services components.

sectoral patterns were evident in hourly earnings, with cuts of varying magnitude. Such decoupling between the various labour cost indicators suggests that private sector firms have been adopting varying approaches to cutting wages. A cautious interpretation of the quarterly sectoral earnings survey is, however, necessary as these data can be subject to revision.

Wage data for 2010 are currently quite limited, although the performance of income tax receipts, which were 6 per cent behind profile in July, provides some, albeit indirect, insight. Such a fall-off outpaces that implied by the estimated rise in unemployment suggesting the possibility that further wage reductions have taken place. As regards the outlook for 2010, considerable downward pressure is set to arise from the public sector pay reduction announced in Budget 2010. In view of this and given the backdrop of weak labour market conditions and declining prices, it is envisaged that wages will fall further in 2010, with compensation per non-agricultural employee expected to decline by 2.7 per cent. Wage increases are likely to be modest in 2011, amid stabilising economic conditions, with growth in compensation per employee of around 1.1 per cent currently anticipated. It is important to stress that the outlook for 2011 is subject to considerable uncertainty at this stage. When combined with the projected fall in the number of non-agricultural employees, it suggests that the non-agricultural pay bill will decline by 6.5 per cent in 2010 followed by a rise of 0.7 per cent in 2011.

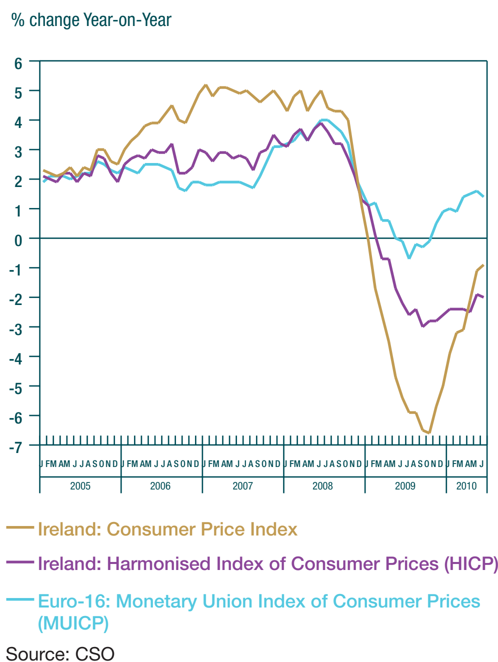
Inflation

Consumer Prices

Base effects arising from volatility in international commodity prices, especially oil prices, strongly influenced the profile of the headline annual HICP inflation rate over the past year. As a result, despite a largely flat month-on-month profile, the annual rate of HICP inflation increased from a trough of –3 per cent last September to –2 per cent in June this year. Meanwhile, the annual rate of CPI inflation recorded a much sharper rise from a trough of –6 per cent in October to –0.9 per cent in June, with large base effects related to the mortgage interest component accounting for the bigger jump. Looking through the volatility caused by short-term factors, core inflation is expected to rise only modestly during the remainder of the year, with the persistent margin of spare capacity likely to continue to bear down on core inflation. However, while firms have strived to reduce costs and prices in an environment of weak demand, some supply chain inflationary pressures are beginning to emerge as the weaker euro against sterling pushes up import prices and as higher prices for international commodities filter through the economy. This may act to moderate the strong price discounting behaviour evident in the certain retail sectors over the past year.

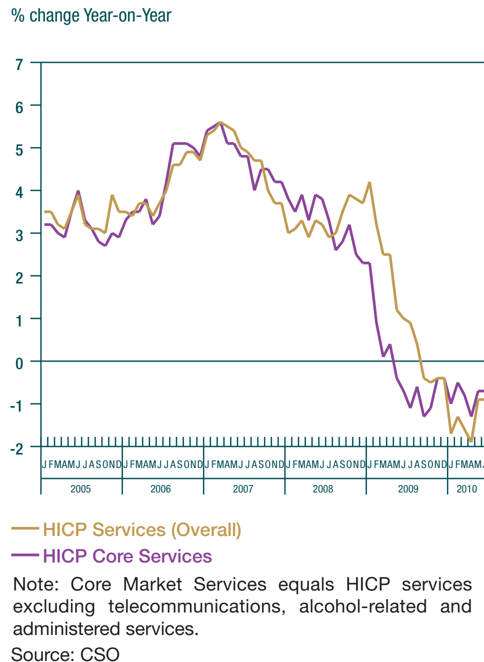
Food and non-alcoholic beverages prices rose by a cumulative 0.5 per cent during May and June, suggesting that the strong price discounting in evidence over the previous year may have run its course. Indeed, a recovery in international food commodity prices is expected to affect retail food prices during the second half of this year. In addition, depreciation of the euro against sterling will impact on food prices in particular, with about 20 per cent of food produce sold in the Irish market imported from the UK. Finally, it is

Chart 4: Consumer Prices



Source: CSO

Chart 5: Services Sector Inflation



Note: Core Market Services equals HICP services excluding telecommunications, alcohol-related and administered services.
Source: CSO

notable that prices for food excluding beverages in the Irish retail sector remain quite high by international standards; according to a recent Eurostat study, food prices in Ireland were the second highest in the EU27 and 28 per cent higher than the EU27 average during 2009. In the meantime, the gap has closed somewhat, with prices here down annually by about on average 7 per cent more than those in the EU27 during the first five months of the year.

Energy prices recorded an annual increase of 9.5 per cent in June, making a contribution of 0.8 percentage points to the annual HICP inflation rate. A discussion of recent trends in energy prices is included in a signed article in the current Bulletin[3].

The higher prices for energy products generally are feeding indirectly into transport services prices. Also, there have been price increases for a range of insurance services, which can be partly explained by market specific developments. As a result, services prices have been more resilient in recent months than may have been anticipated in view of the broader domestic economic climate. As expected and as noted in Box A, the prices are falling for services of a more discretionary nature.

The impact on inflation of both higher international commodity prices and the euro depreciation against sterling will likely be mitigated by weak domestic factors such that overall inflationary pressures are likely to remain muted during 2010. Accordingly, the annual HICP inflation rate is projected to record inflation of about –1.4 per cent this year and the annual CPI inflation rate is projected to be slightly higher at about –1.2 per cent. The annual HICP inflation rate is likely to turn positive towards the close of the year, before averaging about 0.9 per cent in 2011. The annual CPI inflation rate will likely move into positive territory earlier than the corresponding HICP rate, and is projected to average 1.2 per cent next year. The risks for the inflation outlook this year and next appear to be broadly balanced and relate in the main to the projected domestic economic recovery and the evolution of international commodity prices.

[3] O'Brien, D. and L. Weymes, "Impact of Oil Prices on Irish Inflation", Signed Article, Central Bank of Ireland, Quarterly Bulletin 2010 3.

BOX A: Recent Developments in Irish Core Services Inflation

*By Derry O'Brien**

Goods prices can be quite heavily influenced by exchange rate movements and fluctuations in international commodity prices and, therefore, may not give an accurate reflection of underlying domestic price pressures and demand conditions in the economy. In this respect, services price trends can be more informative. However, certain important items within services may also be strongly influenced by international factors or simply by changes in regulations. In this Box, we pare down the services component of HICP inflation to identify trends in subcomponents that may give a more reliable indication of underlying domestic price pressures.

Table 1: Contributions to Irish HICP Services Inflation

	HICP services	Core Services	Administered services	Alcohol-Related Services	Telecoms
2004	1.5%	0.9%	0.2%	0.2%	0.1%
2005	1.4%	0.8%	0.3%	0.2%	0.0%
2006	1.6%	1.1%	0.2%	0.2%	0.0%
2007	1.9%	1.3%	0.2%	0.3%	0.0%
2008	1.4%	0.9%	0.2%	0.3%	0.0%
2009	0.5%	–0.1%	0.4%	0.2%	0.0%

Source: CSO data and Central Bank calculations.

In its analysis of inflation, the Bank distinguishes four sub-components of the overall HICP services index: (i) telecommunications, which are analysed separately because price developments are affected by regulations, or changes in regulations, governing supply; (ii) alcohol-related services, which are affected by regulations but are also affected by the high tax content in the price of alcohol; (iii) administered services, which refer to those services where prices are largely or wholly set by government or regulators; and (iv) core services, which cover all remaining services. Table 1 shows the contributions to HICP services inflation from each of the four components over recent years.

Price trends for core services, which refer to other domestically contested services, tend to better reflect domestic demand conditions and wage pressures than prices for the other components of services. As can be observed in Table 1, the core services component was by far the largest contributor to services inflation up to 2008. More recently, domestic demand conditions and wage pressures have softened significantly and this coincided with a sharp decline in core services inflation. Core services account for almost 65 per cent of total HICP services and price developments in this component can often be challenging to assess given its diverse makeup. Table 2 gives a non-exhaustive breakdown of core services into sub-components where price trends tend to better reflect demand conditions (e.g. personal care services) or where they may be driven by other factors such as oil prices in the case of transport services prices.

It is worth noting that almost no services price is entirely immune to external developments. For example, exchange rate movements affect demand from foreign tourists for hotel accommodation and energy price movements may feed through indirectly to the cost bases of recreational services, albeit possibly to a relatively small degree. Also, increases in certain services prices may arise from firms passing on higher prices for other consumer services.

* The author is an economist in the Bank's Economic Analysis and Research Department. The views expressed in the box are the personal responsibility of the author.

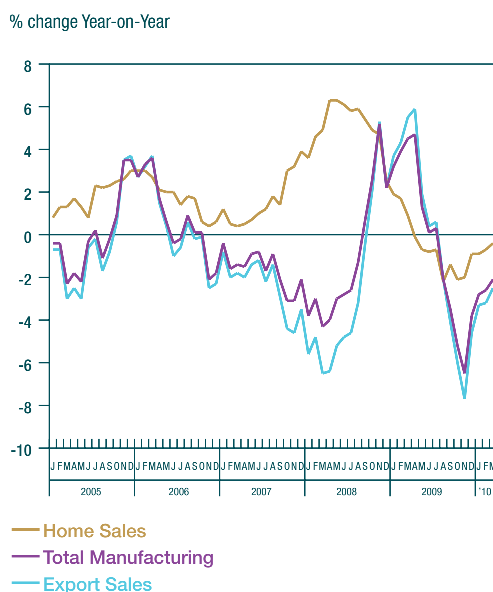
Table 2: Annual Average Inflation in Sub-components of Irish Core Services

Sub-component	2008	2009	2010 (Jan-May)
Restaurants and Hotels	2.1%	–2.4%	–3.0%
Recreation and culture	4.6%	1.9%	–0.6%
Personal care services	5.0%	–0.6%	–3.9%
Transport services	–7.4%	–8.3%	2.8%
Health	8.4%	5.8%	2.2%
Education	6.1%	6.3%	10.0%
Insurance	–1.3%	15.4%	5.8%
Package Holidays & Tours	1.3%	4.3%	4.0%

Source: CSO data and Central Bank calculations.

Transport services prices, increased annually by on average 2.8 per cent during January to May as the indirect effects of higher international oil prices filtered through. In addition, education costs increased by 10 per cent over the same period, driven by a sharp increase in third-level tuition fees, with demand for places in further education increasing in a weak labour market. Insurance fees broadly defined also rose significantly. In contrast, prices for non-essential items, often relating to leisure consumption, have generally recorded stronger price falls. Consumers tend to forego such purchases or show markedly higher price sensitivity when economic circumstances become more challenging and uncertain, with the result that firms are forced to compete more intensely on prices. This has been particularly apparent for a range of personal care services, where prices overall were down on average 3.9 per cent, year-on-year, in the first five months of this year. Also, prices in the restaurants and hotels sector fell by 3 per cent over the same period, with a sharp decline in tourist numbers from abroad intensifying the competitive pressures. Due to broadly similar competitive factors, prices for recreation and culture fell by 0.6 per cent. Summing up, the continuing falls in prices for non-essential services items would suggest that underlying domestic demand conditions in the economy remain very subdued.

Chart 6: Manufacturing Producer Price Inflation

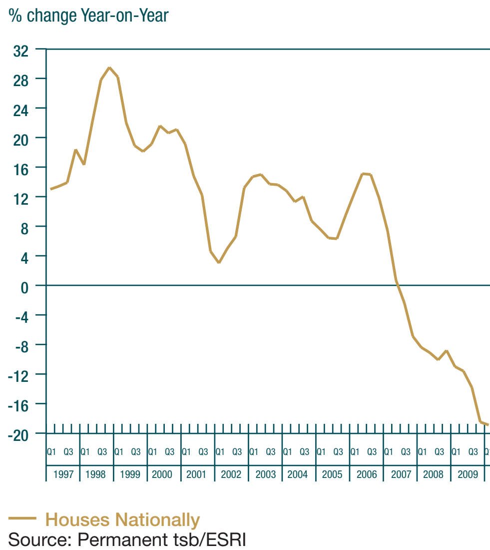


Source: CSO

Property Prices

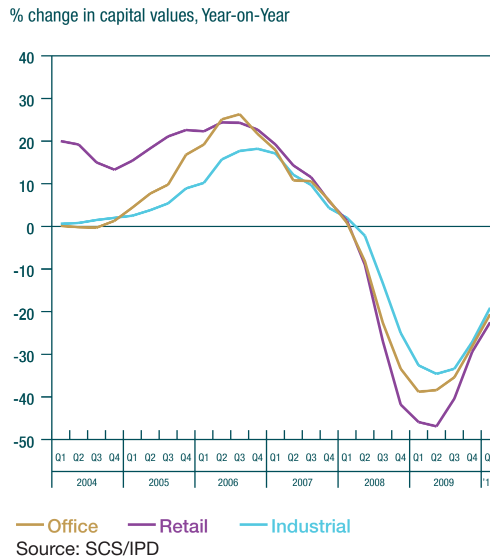
The Permanent tsb/ESRI house price index recorded a cumulative nominal fall in house prices of 34.1 per cent between the end of 2006 and the first quarter of this year whereas the Sherry Fitzgerald index indicates a larger fall of 42.9 per cent. Significant differences in price trends across regions have emerged, as house price falls in Dublin accelerated to 10.3 per cent in the first quarter while price falls outside Dublin moderated somewhat to 3.5 per cent. Recent house price data from Daft.ie, which are based on asking prices, suggest further declines in house prices nationally of just over 4 per cent. Private sector rents rose by over 1 per cent in the three months to May, which compares to a quarterly fall of 0.7 per cent in February. Given the challenging labour market, however, declining disposable incomes and continued net outward migration, there is

Chart 7: Permanent tsb / ESRI House Price Index



Source: Permanent tsb/ESRI

Chart 8: SCS / IPD Irish Commercial Property Index



Source: SCS/IPD

little prospect of any notable pick-up in rents this year, particularly in areas characterised by a persistent and significant overhang of supply.

According to data from the Society of Chartered Surveyors/Investment Property Databank, capital values for commercial property continue to fall across all sectors but at a more moderate pace. During the first quarter of this year, the retail, office and industrial sectors all recorded price falls of between 1.6 per cent and 2 per cent, down from an average fall of about 5 per cent during the final quarter of last year. Capital values have fallen by a cumulative 55.3 per cent in nominal terms between their peak of late 2007 and the first quarter of this year. With transaction activity remaining quite subdued, tracking price trends can be challenging but industry data largely corroborate the finding of a significant moderation in the rate of price declines. The decline in overall commercial property rents also showed some tentative signs of moderating; according to Jones Lang LaSalle, rents fell by a further 4.3 per cent in the first quarter of this year, down from a decline of over 7 per cent in final quarter of last year. However, sectoral trends were not homogenous; there were tentative signs of a stabilisation of rents in the retail sector, but rents in the office and industrial sectors recorded further large falls of 7 per cent and 5.1 per cent, respectively, in the first quarter of this year. These falls in commercial rents will benefit the competitiveness of the Irish economy by helping to bring property costs more into line with those of trading partners.

Competitiveness

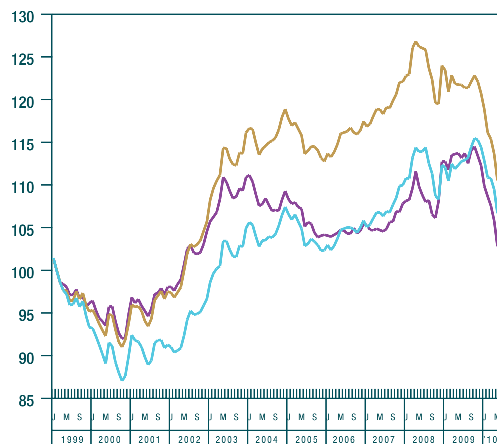
Following a number of years in which the Irish economy lost competitiveness, recent indicators continue to give grounds for cautious optimism. In particular, the unwinding of structural imbalances associated with the housing market boom coupled with a pick-up in the multinational sector is helping to foster a return to positive productivity growth. Furthermore, unit labour costs have fallen in Ireland both in absolute terms and relative to our main trading partners, which reflects in part the relatively high degree of flexibility in the Irish labour market. Finally, recent movements in the euro exchange rate against the dollar and sterling are providing a timely boost for exporters.

Exchange Rate Developments

The euro exchange rate declined significantly against both the dollar and sterling in the first half of 2010. Between December 2009 and June 2010, while fluctuating over the period, the euro declined by approximately 16½ per cent against the dollar and by 8 per cent against sterling.

Chart 9: Harmonised Competitiveness Indicators

Base: Quarter 1, 1999 = 100



Consumer Price Deflated HCI
Producer Price Deflated HCI
Nominal HCI
Sources: Central Bank of Ireland and ECB

Chart 10: Hourly Earnings in Manufacturing (in Local Currency)

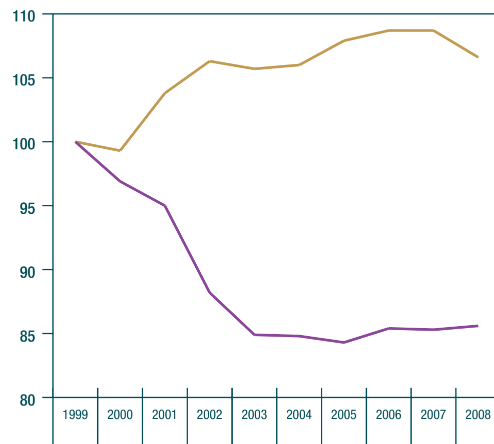
% change Year-on-Year

Ireland
Major Trading Partners
Relative Hourly Earnings
Source: Central Bank of Ireland calculations

The movement in the euro exchange rate is reflected in Ireland's nominal Harmonised Competitiveness Indicator (HCI), which can be interpreted as a trade weighted exchange rate. Between December 2009 and May this year, the latest month for which data is available, the nominal HCI fell by 1 per cent in annual terms and was 5.4 per cent lower in real terms. The fall in the latter reflects the combination of a weaker exchange rate coupled with stronger price declines in Ireland relative to our main trading partners. In fact, the exchange rate driven declines in the HCI during May, in both nominal and real terms, were the largest recorded since January 1998. From a competitiveness perspective, the fairly persistent decline in the real HCI since April 2008 points to a sustained improvement in the underlying price competitiveness of Irish exports.

Chart 11: Unit Wage Costs in Manufacturing

Base: 1999 =100



Wage share weighted

Output share weighted

Source: Central Bank of Ireland calculations

Productivity and Cost Competitiveness

In light of revisions to GDP and GNP in the recently published National Income and Expenditure accounts for 2009, productivity in Ireland as measured by GDP per person employed grew by 0.6 per cent in 2009, although on an hourly basis, the increase was much stronger at 2.9 per cent. Quarterly data show a fairly steady recovery in measured productivity growth throughout 2009, a trend which has gathered momentum in the first quarter of 2010 (on a GDP basis, productivity grew by 5 per cent annually). In light of this and also given the economic outlook discussed above, it is envisaged that productivity will grow by 5.1 per cent this year (Table 8), which would be the fastest rate of productivity growth in nearly a decade. The improvement in

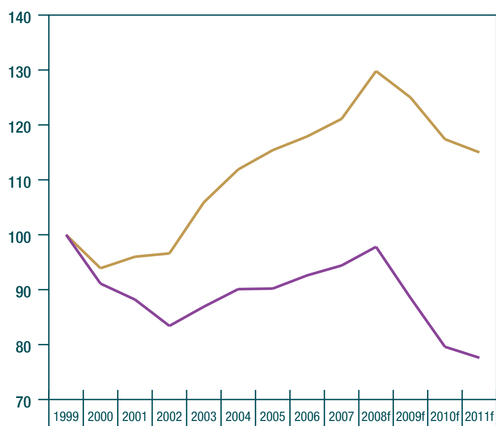
Table 8: Selected Competitiveness Indicators for Ireland, % annual change

	2008	2009	2010	2011
Effective Exchange Rates				
Nominal HCI	4.5	1.0	–1.5	n.a.
Real HCI (consumer prices)	3.8	–1.5	–5.9	n.a.
Real HCI (producer prices)	3.1	4.1	–5.4	n.a.
Productivity				
GDP per person employed	–2.5	0.6	4.9	3.1
GDP per hour worked	–1.5	2.9	5.1	2.2
Labour Costs				
Compensation per employee	3.3	–0.3	–2.7	1.1
Unit Labour Costs	6.0	–0.9	–7.2	–1.9

Source: Central Bank calculations, HCI data are year-to-date figures (Jan-May).

Chart 12: Irish Unit Wage Costs Relative to Main Trading Partners (in Common Currency)

Base: 1999 =100



Whole Economy — Manufacturing Sector

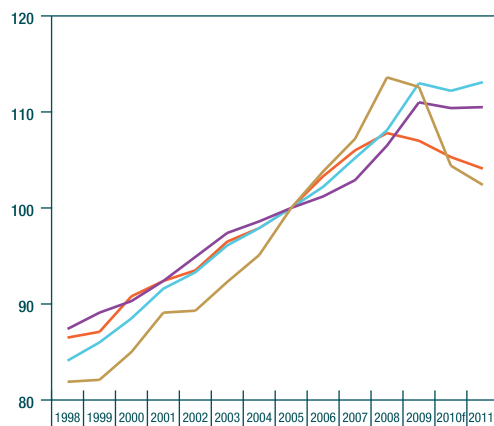
Source: Central Bank of Ireland, ECB and AMECO

productivity also reflects the changing composition in growth away from low to high productivity sectors, principally from construction to modern manufacturing and the internationally traded services sector. A similar pattern is envisaged for 2011 as the economic recovery gains further momentum.

One key measure of an economy's overall competitiveness position is unit labour costs, which takes into account both productivity performance and wage developments. In 2009, unit labour costs in Ireland fell by approximately 0.9 per cent following a number of years of strong increases. For 2010 and 2011, unit labour costs are projected to decline further given the economic and labour market outlook. In aggregate terms, unit labour costs are projected to decline by 7.2 per cent and 1.9 per cent in 2010 and 2011, which compares favourably with the outlook in Ireland's major trading partners (Table 9 and Chart 13). Declining unit labour costs in absolute as well as relative terms will provide a further boost to underlying level of competitiveness and should help the export led recovery in growth.

Chart 13: Unit Labour Cost Indices

2005 = 100



Ireland — Euro Area — UK — USA

Source: Central Bank of Ireland calculations

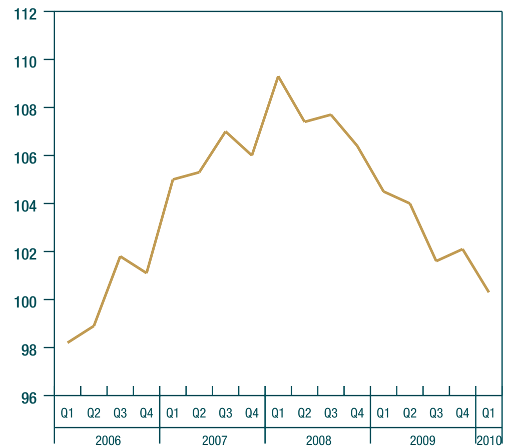
Table 9: Unit Labour Costs, % annual change

	Average 2003-07	2008	2009	2010[f]	2011[f]
Ireland	3.7	6.0	–0.9	–7.2	–1.9
Euro Area	1.6	3.5	4.3	–0.6	0.1
UK	2.4	2.7	4.5	–0.7	0.8
USA	2.5	1.7	–0.7	–1.6	–1.1

Source: European Commission and internal Central Bank calculations.

A further and relatively new indicator of price and cost developments is the 'Services Producer Price Index' (SPPI), which is an experimental series being produced by the Central Statistics Office, that measures the prices charged by domestic service providers to businesses. Preliminary data from this index show that services producer prices fell by 4 per cent year-on-year in the first quarter of 2010, which was the fifth successive quarter of annual price declines and follows an annual decline in services prices of 4.3 per cent in 2009, with all sub-sectors registering declines. In fact, average prices charged to businesses for a range of services has been falling since early 2008 (Chart 14). In terms of the biggest services sub-sectors, prices charged for architectural and engineering services were down the largest amount, by 8.2 per cent in 2009. Similarly, computer programming and consultancy related fees were down 7 per cent last year and by 4.2 per cent in the first quarter. These trends reflect the difficult economic environment at present although they should help in alleviating cost competitiveness pressures.

Chart 14: Services Producer Price Index



Source: CSO, experimental Services Producer Price Index (SPPI)

The Public Finances

In early July, the key half-yearly Exchequer returns were published, showing an Exchequer deficit in the first six months of the year of €8.9 billion (Table 10). This figure was down significantly from the deficit of €14.7 billion encountered over the same period in 2009. This improvement year-on-year largely reflects payments of €3 billion made to both the National Pension Reserve Fund and Anglo Irish Bank in 2009, which have dropped out of the accounts in 2010. Overall, the Exchequer deficit was broadly in line with expectations.

In terms of revenues, tax receipts amounted to €14.4 billion in the first half of 2010, a fall of 8.7 per cent year-on-year. This outturn was marginally weaker than expected, with a shortfall of 1.6 per cent. VAT and Income taxation receipts, the two largest tax heads, were down annually by 8 per cent and 8.6 per cent respectively. Furthermore, income taxes were 5.8 per cent behind their expected target, a shortfall of €300 million in the first half of the year, indicative of extremely difficult labour market conditions. On the upside, corporation and VAT taxation receipts were ahead of profile. Capital taxes and stamp duties remained weak in the first half of the year reflecting the anaemic conditions in the housing market.

Revenue

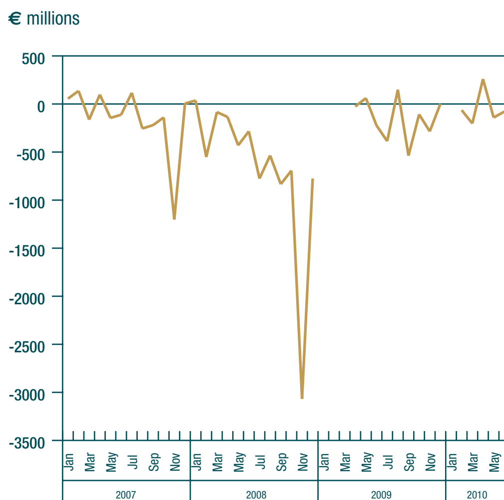
The tax figures so far this year have been broadly in line with expectations, although there was a modest monthly shortfall in June, as depicted in Chart 15, which shows the gap between actual and planned tax receipts. The monthly tax data are volatile however and so annualised receipts are perhaps a better

indicator of emerging trends. As can be seen from Chart 16, receipts appear to be finally bottoming out. While taxes are still falling in annual terms, the rate of decline has eased appreciably and the annual fall in the first half of 2010 was the lowest recoded since mid-2008.

Expenditure

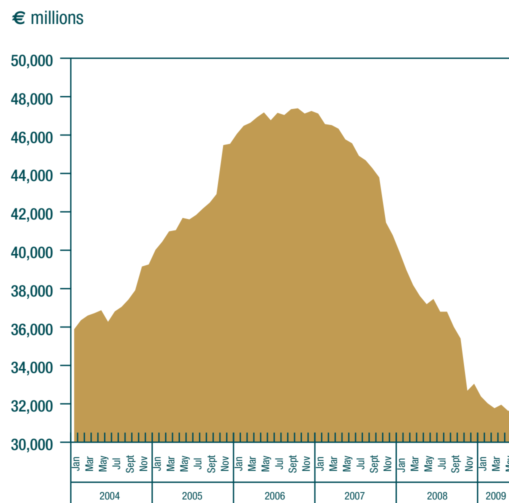
On the expenditure side, total voted spending in the first half of the year amounted to €21.5 billion, a decline of 6.2 per cent in annual terms. This decline was helped by a further sharp reduction in capital spending by a substantive 36 per cent, although this figure appears to have been partly affected by timing factors and is likely to recover in the second half of 2010. On the current side, despite significant consolidation measures introduced since mid-2008, spending only declined by 1.9 per cent, due to the effect of automatic stabilisers. This was evidenced by a 23 per cent increase in total spending by the Department of Social and Family Affairs to €5.9 billion in the first half of 2010. Increased national debt interest charges and related payments also weighed on the expenditure side of the Exchequer returns, increasing to nearly €2.9 billion in the first half of the year and in the process accounting for a fifth of all taxation receipts, as compared with €2.4 billion over the same period in 2009.

Chart 15: Monthly Tax Shortfalls



Note: Discontinuity in series due to a lack of data
Source: Central Bank of Ireland calculations

Chart 16: Annualised Tax Receipts



Source: Central Bank of Ireland calculations

Exchequer Financing

The Exchequer Returns show borrowing of €7.6 billion in the first half of 2010, down substantially from the €21.6 billion borrowed over the same period in 2009 (Table 10). The heavy borrowing in June 2009 in part reflected the aforementioned payments to both Anglo Irish Bank and the frontloading of the National Pension Reserve Fund.

Outlook for 2010

In terms of the fiscal outlook for 2010, the latest Bank estimates point to an underlying General Government deficit of 11.8 per cent of GDP, which is similar to the targeted deficit in Budget 2010 of 11.6 per cent. In March, the Government announced the payment of promissory notes to Anglo Irish Bank and Irish Nationwide, amounting to a combined €10.9 billion. With the promissory note to Anglo Irish Bank now being reclassified within the General Government Sector, the deficit for 2010 would increase to a projected 17 per cent of GDP. Should the promissory note to Irish Nationwide also be reclassified in a similar fashion, the projected deficit for 2010 would rise to 18.7 per cent of GDP. This figure excludes the additional €2 billion in capital provided to Anglo Irish Bank in May.

Table 10: Mid-year 2010 Exchequer Returns

	2009 Outturn €m	2009 End-June €m	2010 End-June €m	2010 % Annual Change
Current Expenditure				
— Voted[a]	40,256	20,031	19,655	–1.9
— Non Voted[b]	4,992	3,493	3,689	5.6
Total	**45,248**	**23,524**	**23,343**	**–0.8**
Current Revenue				
— Tax revenue	33,043	15,809	14,432	–8.7
— Non-tax revenue[c]	836	503	866	72.3
Total	**33,879**	**16,312**	**15,298**	**–6.2**
Current Budget Balance	**–11,369**	**–7,212**	**–8,045**	
Capital Budget Balance	**–13,272**	**–7,497**	**–842**	
Exchequer Balance	**–24,641**	**–14,709**	**–8,887**	
General Government Balance (% of GDP)[d]	**–14.6**			
Source and Application of Funds				
Total Borrowing/Repayments	–24,474	–21,635	–7,590	
Total Increase in Exchequer Deposits	–167	6,926	–1,298	
Exchequer Balance	**–24,641**	**–14,709**	**–8,887**	

[a]Government current expenditure voted on by the Dáil in the areas of Social Welfare, Health, etc.
[b]Debt servicing, judicial salaries and pensions and EU Budget contribution.
[c]Central Bank surplus income, National Lottery surplus, interest and dividends.
[d]Estimate from the March 2010 Maastricht Returns, adjusted for the latest NIE figures for GDP.

The promissory note payments are once-off events, and the deficit should fall back towards 10 per cent of GDP in 2011, assuming that the €3 billion in consolidation measures for 2011, signalled in Budget 2010 are delivered.

The challenges posed by the deterioration in the fiscal position are unprecedented given the speed and magnitude of the economic downturn coupled with the unwinding of serious structural imbalances within the economy. The consolidation measures introduced since mid-2008 have been vital in limiting the size of the deterioration. On the upside, it appears that taxation receipts are nearing their minimum point in the cycle. With economic conditions projected to improve over the second half of the year, this should provide positive impetus to taxation receipts in the second half of 2010 and into 2011. Nevertheless, future economic growth is likely to be predominantly export-led, which means that the recovery in taxation receipts will be limited as compared with the domestic demand driven boom of the previous decade. Ultimately, taxation and expenditure programmes will need to become more closely aligned, with an underlying gap at present of approximately €20 billion, as the economy reverts to more normal and sustainable growth.

Box B: Developments in the Level and Composition of Net Factor Income Flows

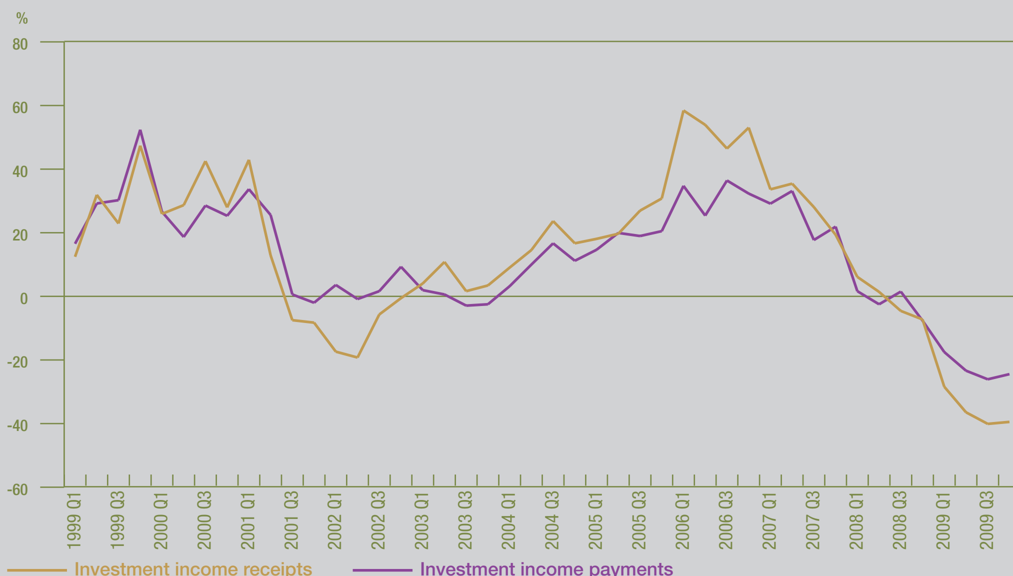
by Mary Everett*

Over the last two years, declines in GNP have been more severe than that in GDP owing to growth in net factor income flows abroad, see Chart 1. These increases largely stem from two factors: the repatriation of profits earned by foreign-owned multinationals in Ireland to their parent companies abroad, and the increasing interest payments required to service Irish Government debt. In addition the significant contribution of the international financial services industry to the Irish external balance sheet has impacted on the composition of investment income flows. This box focuses on recent developments in cross-border financial flows which impacted on net factor income outflows.

Chart 1: The Increasing Gap between GDP and GNP

Note: Data are sourced from the CSO.

Chart 2: Annual Growth of International Investment Income Payments and Receipts



Notes:

(i) Data are sourced from the CSO.
(ii) Annual growth is based on the year-on-year quarterly change.

* The author is an economist in the Bank's Statistics Department. The views expressed in the box are the personal responsibility of the author.

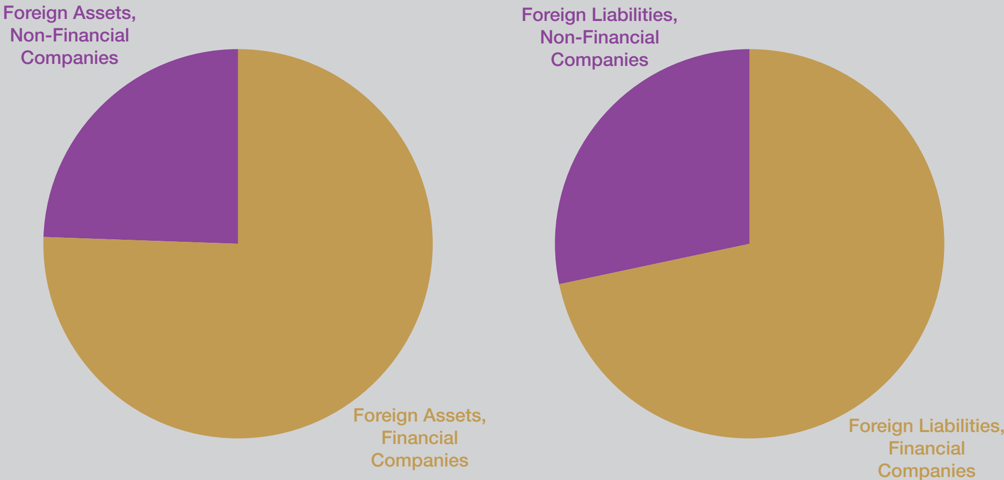
While both international investment income payments and receipts declined during 2008 and 2009, payments to foreign investors in Ireland declined by less than Irish investment related earnings abroad, see Chart 2.

Traditionally net factor income payments abroad have been largely associated with the repatriation of profits, earned by foreign-owned multinational companies based in Ireland, to their parent companies abroad. Although foreign direct investment into multinational companies based in Ireland continues to be an important feature of the Irish economy, Irish companies have, in recent years, expanded their operations abroad through outward direct investment. Furthermore, the growth in the international activities of Irish banks and the financial services industry has also impacted on the flows of international investment to and from Ireland.

Given the shift in the composition of foreign investment and related income flows, the complexity of interpreting Irish net factor income outflows has increased accordingly. Chart 3 displays the external assets and liabilities of foreign investors in Ireland, and Irish investors abroad, subdivided into financial and non-financial companies.

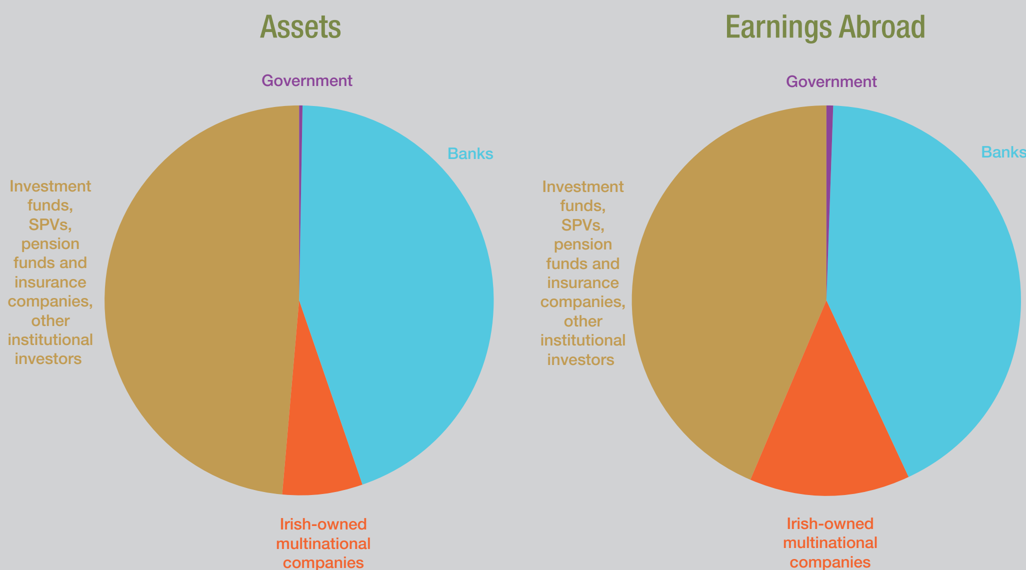
The constituent division of foreign assets and liabilities between Irish financial and non-financial companies is clear from Chart 3. While the external assets and liabilities of non-financial companies, including multinational corporations, continue to comprise a significant portion of Ireland's external balance sheet, the foreign assets and liabilities of financial enterprises are considerable. Charts 4 and 5 present these foreign assets and liabilities categorised into sub-sectors, along with their related income earnings and payments.

Chart 3: Foreign Assets and Liabilities of Irish Financial and Non-Financial Companies at end-2009



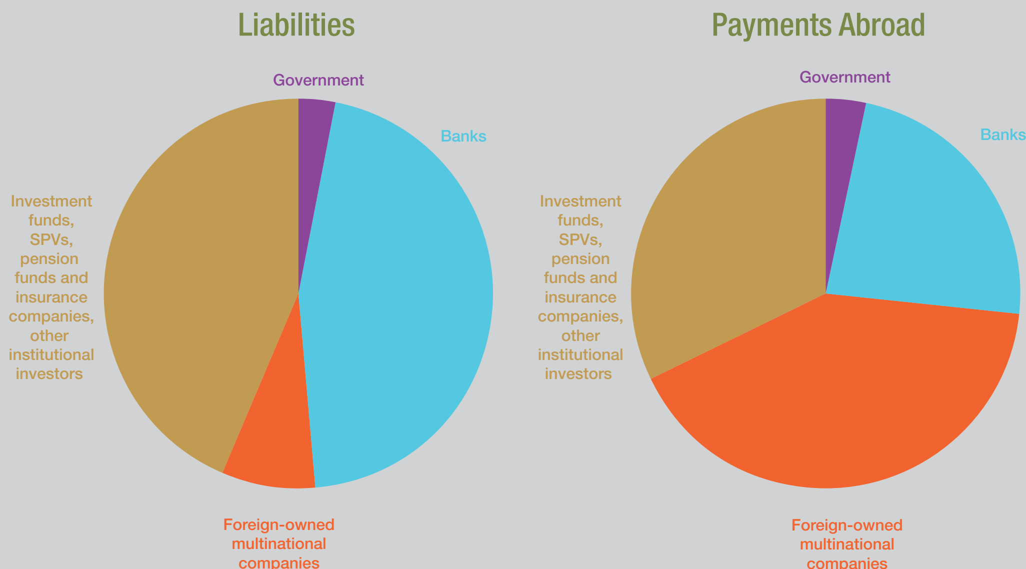
Note: Data are sourced from the CSO and authors own calculations.

Chart 4: Foreign Assets at end-2009 and Related Earnings during 2009



Note: Data are sourced from the CSO and author's own calculations.

Chart 5: Foreign Liabilities at end-2009 and Related Payments during 2009

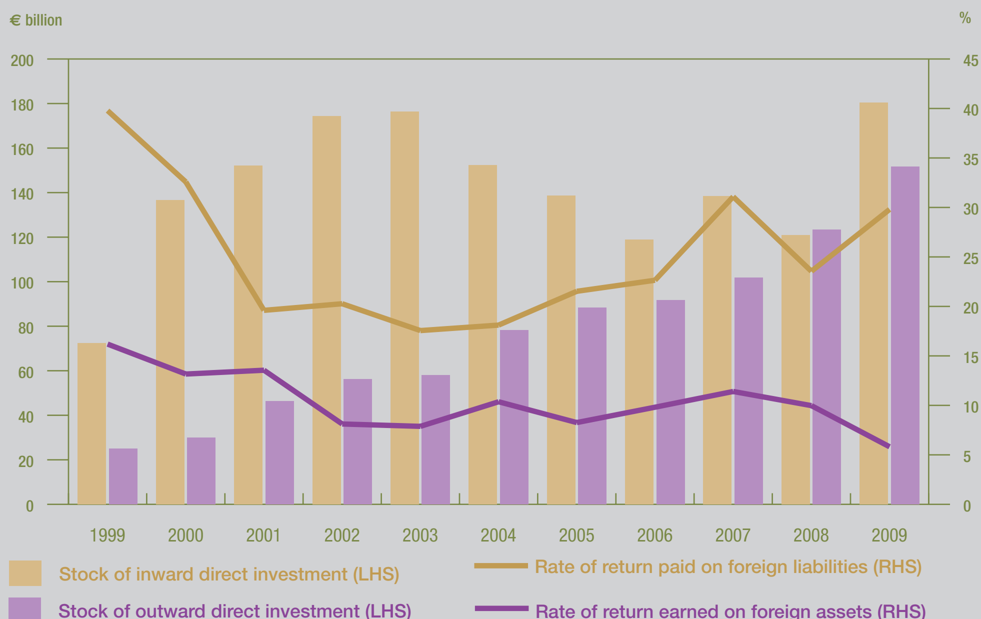


Note: Data are sourced from the CSO and author's own calculations.

Chart 4 highlights that the income receipts arising from Irish investors' holdings of foreign assets are broadly in line with the distribution of financial assets across various sectors, for both financial and non-financial entities.

Foreign liabilities presented in Chart 5 represent the outstanding amount of external liabilities for sub-sectors of the Irish economy at end-2009, and related interest payments to foreign investors during the year. Despite the relatively small percentage of the multinational corporations' investment in Ireland, relative to the external liabilities of the whole economy, the related payments abroad are substantial.

Chart 6: Multinational Companies' Rate of Return on Investment in Ireland and Abroad



Notes:
(i) Data are sourced from the CSO.
(ii) Rates of return are based on author's own calculations.
(iii) 2009 volume of direct investment is based on author's own calculations.

Multinational companies' international capital flows

In spite of equity withdrawals by foreign-owned multinational corporations from their Irish operations in 2008 and 2009, and an increase in loans to affiliate companies abroad, reinvested earnings, in conjunction with the establishment of Irish headquarters by a number of multinational companies, increased the overall stock of direct investment in Ireland at end-2009.

During 2008, Irish companies sustained the expansion of their operations abroad, with outward direct investments of €9 billion into foreign-based affiliate companies. In fact, the stock of outward direct investment by Irish companies abroad, exceeded the stock of inward direct investment by foreign investors by €2.4 billion at end-2008. Cross-border direct investment by Irish companies continued during 2009, and the outward direct investment trend by Irish companies appears to have been largely unaffected by the international financial crisis in Autumn 2008.

Notwithstanding these increases in foreign direct investment abroad, the gap between foreign earnings and payments abroad has continued to increase due to different rates of return on direct investment abroad and in Ireland, see Chart 6.

It is evident from Chart 6 that substantial differences exist between the rates of return payable by Irish residents to foreign holders of Irish assets, and the yields paid to Irish investors for holding foreign assets. A number of factors can influence such a varying degree in the rates of return of direct investment. Tax arbitrage can impact on the profit allocation within multinational companies, as they seek to optimise profits by minimising tax liabilities for the group as a whole. For example, inter-company borrowing can reduce tax liabilities as interest expenses are tax deductible. Moreover, the pricing applied to inter-group transactions, for example exports and imports, can contribute to increasing profits in particular locations, consequently raising the earnings payable to the foreign parent company.

While it is the case that high rates of return are commonly recorded in low corporate tax countries like Ireland, where significant profits are earned by multinational groups, much of the inward investment is in highly productive value added activities with high rates of return. Furthermore, the seniority and maturity of foreign investment in Irish based multinationals improves the rates of return on the related profit levels.

Financial companies' international capital flows

During the international financial crisis, home bias rose extensively which was evident across different types of financial companies, and for both debt and equity instruments. The external balance sheet of financial companies contracted as Irish investors sought to redeem their foreign investments, while foreign investors in Ireland reduced their holdings of Irish securities, commencing in the third quarter of 2008.

For IFSC-type financial companies, like investment funds and securitisation vehicles, disinvestment in foreign securities commenced in the third quarter of 2008, as Irish financial investors sold their foreign investments, mainly their equity instruments. This contraction continued until the second half of 2009, when there was a recovery in Irish investment abroad. Due to the turbulence in the international financial markets, foreign investment in Ireland declined by €67.5 billion in 2008 as foreign investors sold their Irish financial assets. This deleveraging continued until mid-2009, when foreign investment in Irish issued bonds and notes and equity instruments resumed, and was outstanding at an amount of €1 trillion at end-2009.

Similarly for institutional investors, like insurance companies and pension funds, the decline in the value of foreign assets, compounded by foreign deleveraging, resulted in an overall reduction of 23 per cent in these sub-sectors' external assets during 2008. A return to confidence in international financial markets in 2009, led to a revival in investment abroad and the value of external assets increased by 12 per cent during 2009.[1]

The contractions in the international balance sheets of Irish and foreign financial investors were also reflected in the drop of related income flows for both equity and debt instruments. As a result, financial companies' income paid and received both declined in 2008 and 2009. Given a rebound in foreign investment by IFSC companies in 2009, and a pickup in institutional investors' investment abroad, the related income flows should rebound in 2010. In contrast to the rates of return linked to foreign direct investment, the rates of return for financial intermediaries are correlated with the stock of foreign assets and liabilities, and despite the contribution of financial enterprises to the Irish external balance sheet, the related income payments and earnings are broadly neutral.

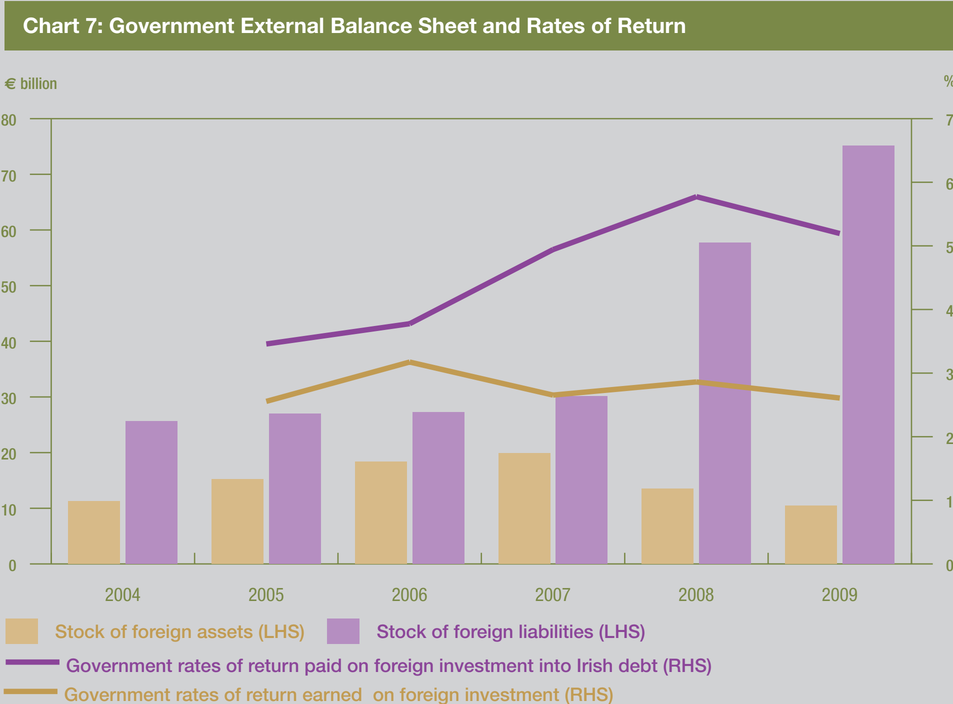
Monetary financial intermediaries' international capital flows

The external balance sheet of the money holding and issuing sector, comprising banks and money market funds, declined throughout 2008 and 2009. Over these two years, external liabilities declined across both short- and long-term debt instruments, as well as foreign loans and deposits, by €112 billion. In addition the value of equity investment by non-residents in Irish banks also declined over the period. Growing liquidity requirements, heightened risk aversion and balance sheet restructuring by banks arising from the international crisis all contributed to the contraction in cross-border investments and loans.

Despite the contribution of MFIs' income to total investment income payments and receipts, the impact of this sector on the gap between GDP and GNP, or net factor income flows, is negligible. It is expected that MFIs' income payments and receipts related to foreign loans and deposits will decline in 2010 given the reduction of both during 2009.

[1] The liabilities of these entities are insignificant.

Chart 7: Government External Balance Sheet and Rates of Return



Notes:
(i) Data are sourced from the CSO.
(ii) Rates of return are based on author's own calculations.

Irish Government's international capital flows

Owing to the increased financing requirements of the Government sector, the net external debt of Government has increased significantly over the last two years. Net external financing increased from €10 billion at end-2007, to €44 billion at end-2008 to nearly €65 billion at end-2009. Chart 7 displays the non-residents investors' holdings of Irish Government debt.

Related net interest payments abroad to foreign holders of Irish Government gross debt, grew over the last two years, by 36 per cent and 126 per cent, in 2008 and 2009 respectively, further contributing to the increase in net factor payments abroad.

In summary, the increasing gap between GDP and GNP over the last two years, resulted from increasing earnings by foreign companies based in Ireland as the rates of return earned are remarkably high, coupled with the increasing volume of payments required to service Irish Government debt. While the increasing importance of the international financial transactions by financial intermediaries contribute to investment income flows, their related impact on the gap between GDP and GNP is negligible.

Monetary and Financial Market Developments

Overview

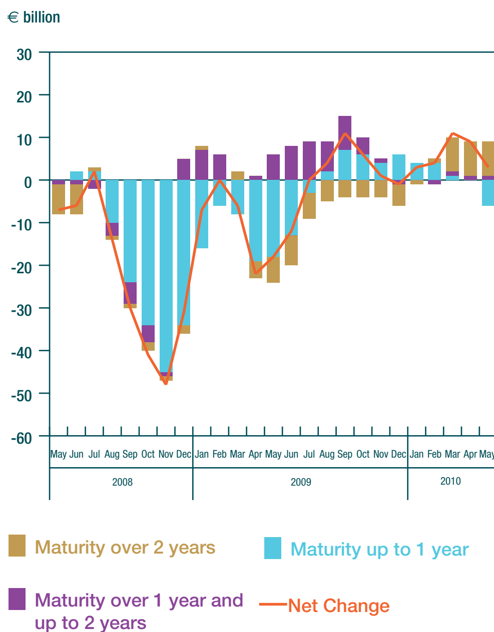
Following a relatively benign environment in the opening months of 2010, financial markets have been more volatile recently, as developments in the sovereign debt market in the euro area spilled over into other debt, equity and money markets. More positive economic data in the first quarter of the year failed to allay market concerns about the pace and distribution of the global economic recovery given the related headwinds of continued weaknesses in the financial sector and unsustainably large fiscal deficits. This was particularly the case in the euro area, where following the large increase in the public sector balance sheet to offset the fall in private sector demand and in support of the financial sector, many governments have announced plans for necessary fiscal consolidation.

The dislocation in the euro area sovereign debt market began with the ongoing concern over the sustainability of the Greek public finances through early 2010. Despite a number of policy interventions up to early May 2010, market tensions spread to other Member States' sovereign debt markets as the wider need for credible fiscal consolidation became apparent. The contagion also spread into equity, private debt and inter-bank money markets. Yields on the debt of a number of euro area sovereigns, including Ireland, increased sharply at the height of the tensions in late April and early May, and liquidity in the unsecured inter-bank funding markets was significantly hampered. The Governing Council subsequently introduced a number of short-term measures to ensure that this market dislocation, particularly in terms of bank funding, did not adversely affect the monetary transmission mechanism in the euro area, such that medium term price stability would be difficult to maintain. These interim measures adopted by the Governing Council complement the necessary longer-term policy measures adopted by euro area Member States by way of confidence building fiscal consolidation and the establishment of the European Financial Stability Fund (EFSF), and have eased market tensions to some degree.

In addition to the public finance measures being adopted in the euro area, the stress-tests of European Union banks undertaken by the Committee of European Bank Supervisors (CEBS) and the ECB will be published by the European Council in late July. This will allow for greater transparency on any remaining weaknesses to be overcome in the EU banking sector and help remove the uncertainty which has led in part to the difficult funding environment for EU banks. The challenging conditions in bank funding markets in addition to muted demand from households and non-financial corporations (NFCs), continued to influence the flow of credit to the private sector in Ireland. NFC credit fell by 3.4 per cent in the year ending May 2010, following annual declines of 3.3 per cent in March and 2.9 per cent in April 2010. Meanwhile loans to households were 1.5 per cent lower on an annual basis in May 2010, following similar annual declines in March and April 2010. Equivalent data for the euro area as a whole show household loans increasing on an annual basis by 2.6 per cent in May.

Interest rates on new loans to euro area households and NFCs issued by euro area credit institutions have in general decreased since end-2009, but not at the same pace as through 2009, suggesting that retail interest rates in the euro are reaching the bottom of the current cycle. Equivalent measures for new loans issued by Irish resident credit institutions show that they have, in general, increased in the first five months of 2010. Meanwhile, interest rates for household and NFC deposits domestically have fallen in recent months as margins are being widened in an effort to repair credit institutions' balance sheets and to reflect more sustainable business models.

Chart 1: Net Issues of Debt Securities by Irish Resident Credit Institutions
(Rolling 3-month change)



Source: CBFSAI.

Domestically, the most significant development in recent months has been the first transfer of land and development loans by the participating credit institutions to the National Asset Management Agency (NAMA). This process began at the end of March 2010. At the same time the Central Bank announced details of the new capital requirements for these credit institutions which are to be met by end-2010. The crystallisation of losses on these land and development loans sold to NAMA, coupled with the clarity on future capital requirements and Government support to the participating credit institutions, by way of the extended liabilities guarantee scheme and, if necessary, further capital injections, should enable the domestic banking system to take advantage of the stable market conditions which should result from the initiatives taken by the Eurosystem and euro area policy makers as a whole.

A: Financial Markets

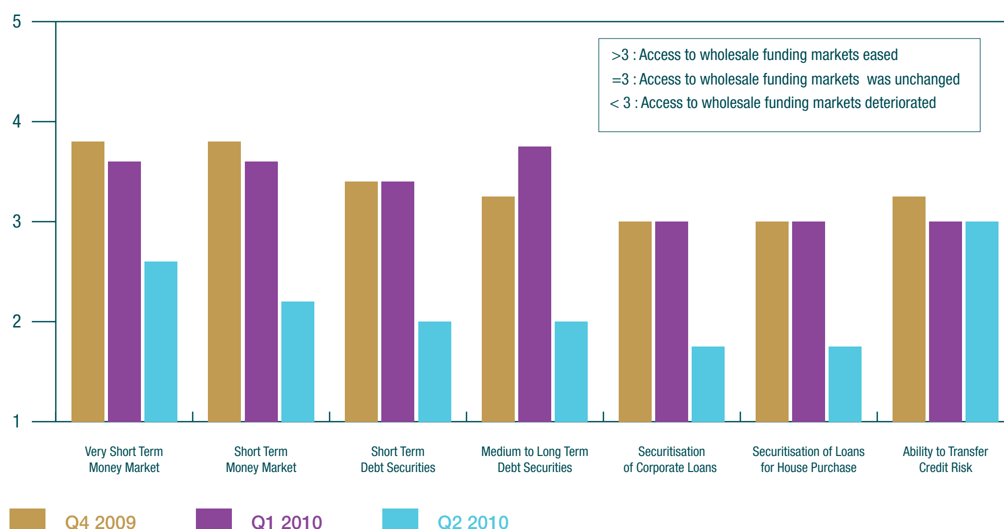
Bank Funding and Money Market Developments

Bank funding markets, in terms of debt, equity and money markets were particularly affected by the contagion from the sovereign debt market in the euro area in recent months, as aversion to counterparty risk grew on fears of banks' exposure to some euro area sovereign debt. This followed a period of stabilisation and recovery since late 2009 and through Q1 2010. The gross issuance of debt securities by euro area MFIs has been on an upward trajectory, albeit volatile, since November 2009, and up until end-April 2010 the corporate bond spread for BBB-rated euro area financial sector debt had narrowed significantly since their peak in early 2009. Between mid-April and end-May 2010, however, these bond spreads rose by approximately 100 basis points. Likewise CDS spreads on euro area banks' five-year senior debt rose by 85 basis points, having been relatively stable since autumn 2009.

Against this backdrop, the outstanding amount of debt securities issued by Irish resident credit institutions continued to increase over the first five months of 2010, and in particular during Q1 2010. The most recent months have seen a rise in the amount of longer term debt securities, with a maturity of over two years, more than compensating for less robust activity at shorter maturities, i.e. up to one year. These developments come as the domestically owned banks have begun to transfer loans to NAMA. They have also started to put in place, or are seeking approval for, restructuring plans involving asset disposal and further equity and debt issues to meet the end-2010 capital requirements set by the Central Bank announced on 30 March 2010. The more challenging environment in bank funding markets, particularly from mid-May is reflected in responses to the euro area Bank Lending Survey (BLS) for Q2 2010, which included questions on access to wholesale funding. Irish respondents to the BLS noted that access to wholesale unsecured money markets as well as the market for debt securities deteriorated in Q2 2010, having eased in the previous two quarters.

The euro area money markets were particularly affected by the spillover from developments in the sovereign debt markets in April and May 2010. Both the Euribor and the Eonia markets became very thin in early May, as banks withdrew from the unsecured lending markets given the heightened sensitivity to counterparty risk. There were also tensions in US dollar funding markets, with the dollar OIS spread

Chart 2: Access to Wholesale Funding Markets



Source: CBFSAI.

Box 1: The First Transfers to the National Asset Management Agency

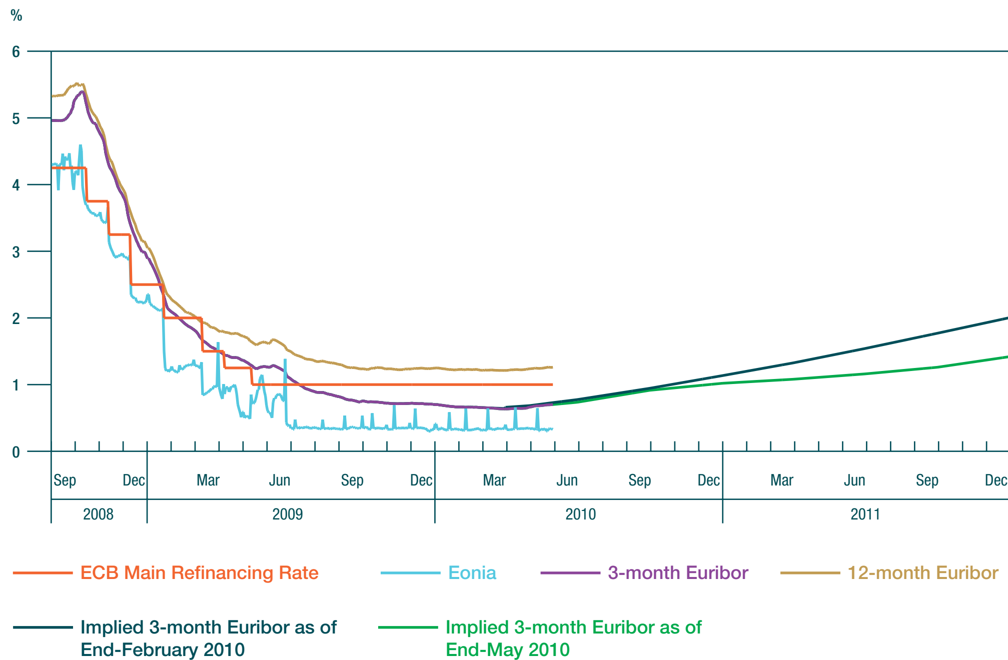
NAMA began purchasing land and development loans from five participating credit institutions at the end of March 2010. By the end of May, loans with a nominal value of over €15 billion had been transferred to NAMA in return for securities valued at approximately €7.7 billion. A significant amount of this write-down, particularly relating to loans to non-Irish residents, had already been recognised by the participating institutions prior to transfer. Approximately 52 per cent of the total write-downs on Tranche 1 were taken at the time of transfer. Overall, the loans to non-residents had a significantly higher total write-down in percentage terms from nominal amounts outstanding than that on loans to Irish residents.

Table 1A: The First Tranche of Transfers to NAMA up to end-May 2010, € million

	Loans to Irish Residents	Loans to Non-Residents
Nominal value	12,651	2,477
Book value of loans prior to transfer	9,646	1,903
Write-down of loans at time of transfer	-3,555	-375
Sale value of loans	6,090	1,528
Debt securities received from NAMA SPV	7,703	

Notes: Nominal value refers to the outstanding balance of loans and any other instruments transferred in the period. This does not necessarily equal book value, as book value is reported net of any impairment provisions or write-downs recognised up to the point of transfer. Book value as reported here only refers to loans transferred. Write-downs refer to those taken at the time of transfer on loans only. Differences may exist between the sale value of loans and the value of debt securities received from the NAMA SPV as the latter will include the value of accrued interest on loans transferred and the value of any non-loan instruments that are transferred.
Source: CBFSAI.

Chart 3: Main ECB and Money Market Interest Rates



Source: CBFSAI and Thomson Reuters Datastream.

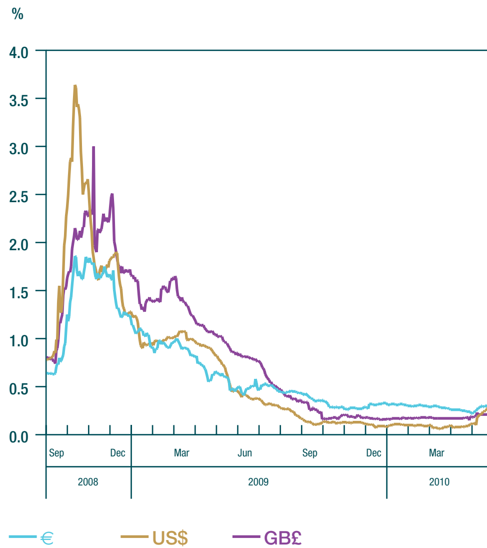
almost trebling during May 2010. This dislocation in euro bank funding markets was mitigated by policy announcements by the Governing Council on 10 May, to complement the continued ample liquidity provision through the enhanced main and longer-term refinancing operations. These policy announcements included the establishment of the Securities Markets Programme (SMP), an interim measure in which the Eurosystem will purchase euro area public and private debt securities in secondary markets to ensure depth and liquidity in these markets. These purchases are not intended to provide monetary stimulus to the economy, and will be sterilised over the life of the Programme through fine-tuning operations and fixed-term deposits. The SMP aims to maintain the integrity of the monetary transmission mechanism in the euro area, such that the retail interest rates prevailing in the market for lending to households and NFCs are not driven to an inappropriately high level due to the dislocation in bank funding, stemming from tensions in sovereign debt markets. The Governing Council has also decided to maintain the enhanced liquidity providing measures in place following the collapse of Lehman Brothers in 2008, whereby refinancing operations are mostly conducted on a full allotment basis at a fixed rate tender. Between end-April and end-May 2010, the amount outstanding in Eurosystem refinancing operations with euro area credit institutions increased from €743.6 billion to €815.1 billion as liquidity in the unsecured interbank market declined given the contagion from the sovereign debt market. There remained, however, abundant liquidity in the euro area as a whole, evidenced by the significant recourse to the ECB deposit facility over the period.

As a result of the heightened tensions in the euro unsecured money markets in recent months, the money market yield curve, as represented by the spread between the 12-month and 1-month Euribor, was marginally steeper at end-May 2010 compared with end-February 2010. According to the implied path derived from 3-month Euribor futures, however, market participants at end-May did not expect interest rates to rise as fast over the coming year as they had expected at end-February 2010.

Sovereign Debt Market

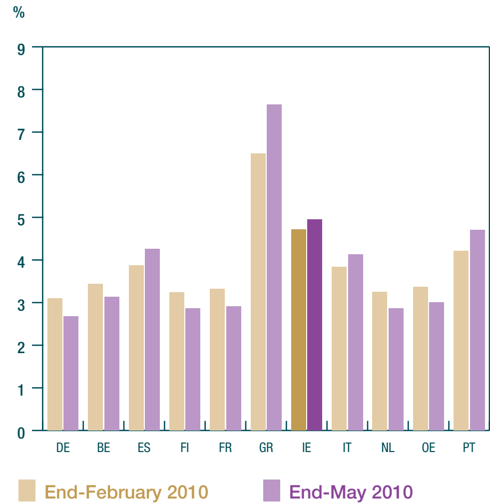
The sovereign debt market in the euro area has been subject to significant tensions, as evidence of more positive macroeconomic conditions in Q1 2010 was overcome in recent months by the fallout of the Greek fiscal crisis and the wider need for a return to sustainable

Chart 4: 3-Month Euribor (€) and Libor (GB£, US$) Spreads versus Overnight Index Swaps



Source: Thomson Reuters Datastream.

Chart 5: Euro Area Ten-Year Government Bond Yields



Source: Thomson Reuters Datastream.

fiscal deficits for a number of euro area sovereigns. Contagion spread into the market for other euro area sovereign debt in late April and into wider financial markets in early May. This resulted in the significant policy interventions announced by the Governing Council on 10 May, as described above.

Concerns over the sustainability of the Greek fiscal situation had persisted through Q1 2010, resulting in the announcement of a joint EU/IMF support package in early April worth €45 billion. The package was subsequently increased to €110 billion and the Governing Council suspended the minimum credit rating threshold applied to debt issued and guaranteed by the Greek government for use in Eurosystem refinancing operations. In late April yields on ten-year sovereign bonds for Greece and Portugal rose significantly, as did the CDS spread on shorter-term Greek and Portuguese debt. Yields on Spanish, Italian and Irish sovereign debt also increased, and the spread over yields on German sovereign debt rose as investors' demand for Bunds was heightened by flight-to-safety behaviour. In order to underpin confidence in euro area sovereign debt, euro area Member State governments and the EU Commission announced the establishment of the €440 billion European Financial Stability Facility (EFSF) on 9 May. The EFSF will issue debt guaranteed by the 16 euro area Member States in order to provide loans to any Member State that faces difficulty raising external financing, once that Member State has made commitments on an economic and fiscal adjustment programme.

There was some reprieve in the sovereign debt market for many euro area Member States in mid-May as a result of the various policy interventions, as CDS spreads and yield spreads over German debt narrowed. Towards the end of May, however, market participants' attention turned to the effectiveness and impact of the fiscal consolidation being undertaken by most euro area Member States to ensure credibility in their public finances. Confidence was also negatively impacted when Spanish sovereign debt was downgraded by Fitch at the end of May 2010. As a result some of the safe haven flows which led to the earlier widening of bond spreads became evident again, but not to the same extent as in April or early May.

Over the period end-February to end-May 2010, the Irish sovereign ten-year bond yield rose by 23 basis points, ending the period at 4.9 per cent. As the contagion in sovereign debt markets from the Greek fiscal crisis intensified, the Irish ten-year yield increased to 5.9 per cent on 7 May. The five-year yield had a similar trajectory over the three months ending May 2010, although the five-year spread over equivalent German sovereign debt

Chart 6: Irish Government Bond Yields and Spreads over German Equivalents

Source: Thomson Reuters Datastream.

Chart 7: Irish and International Share Price Indices (end-September 2008=100)

Source: Thomson Reuters Datastream.

spiked significantly more so than the ten-year spread in early May during the market turbulence. The widening in ten-year yield spreads over German debt was evident for all other euro area Member States during the period as investors' demand for Bunds was high, but this was more pronounced for some, including Irish sovereign debt. During this period, the NTMA raised €4.5 billion in their monthly auctions with a bid-to-cover ratio averaging 3.2, suggesting that there was still strong demand for Irish Government bonds.

Equity Markets

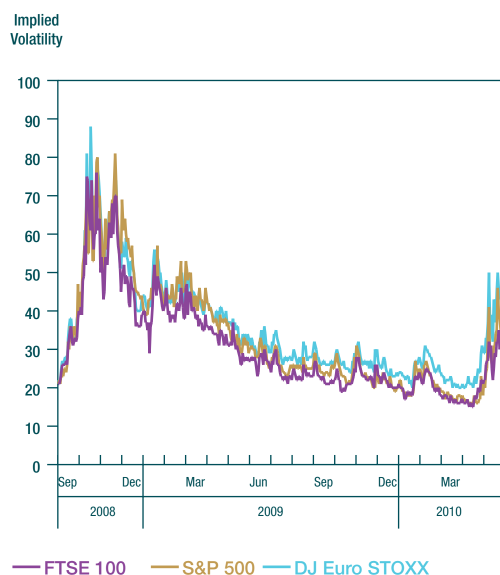
After declining over the first two months of 2010, stock prices rallied somewhat in March and early April in both Europe and the United States on the back of positive economic data. Market confidence turned markedly in late April, however, as the escalation of the Greek fiscal crisis began a renewed trend of risk aversion, which was further compounded by contagion from developments in the wider euro area sovereign debt market in early May. After reaching 12-month highs in mid-April, the FTSE All Share, DJ EURO STOXX, and the S&P 500 fell by 10.6 per cent, 12.3 per cent and 10.5 per cent, respectively, from those highs by end-May. Similarly, by the end of May, the ISEQ Index of Irish shares fell by 15.7 per cent from its 12-month high in mid-April. On an annual basis, however, the major international indices had increased by between 9.8 per cent (DJ EURO STOXX) and 18.7 per cent (FTSE All Share) in the 12 months ending May 2010. The ISEQ Index of Irish shares had risen by 8.3 per cent over the 12 months.

The market tensions of early May were more immediately reflected in the stock prices of financial companies, particularly in the euro area. Bank equities in the euro area, including Ireland, continued to underperform relative to their respective aggregate market indices, as investors were concerned about the exposure of various banks to certain sovereigns. The general increase in risk aversion stemming from the developments in euro area sovereign debt markets in May meant, however, that the value of non-financial equities also suffered. Stock market volatility, which had in general been declining through 2009, increased sharply during May as a result of the uncertainty caused by events in the sovereign debt markets.

Foreign Exchange Developments

The euro depreciated against other major international currencies in the first five months of 2010, declining by 4.4 per cent, 14.6 per cent and 15.4 per cent against sterling, the US dollar and the Japanese yen, respectively. The

Chart 8: Implied Equity Market Volatility



Source: Thomson Reuters Datastream.
Note: S&P 500 is the implied volatility of S&P 500 options taken from the VIX index. FTSE 100 is the implied volatility of FTSE 100 options taken from the FTSE 100 Volatility index. DJ EURO STOXX is the implied volatility of DJ EURO STOXX 50 options taken from the VSTOXX index.

euro has in general been weakening since late 2009, but the most prominent movements took place in May 2010 as concerns in the euro area sovereign debt market became more widespread. At the end of May 2010, the euro was trading at 11.8 per cent below its 2009 average against the US dollar, and the euro weakened by 7.6 per cent in May alone. The trend of depreciation against the Japanese yen continues to be even more pronounced, with the euro trading at 13.6 per cent below its 2009 average against the yen by end-May 2010. In May the euro fell to an eight-year low against the yen and a four-year low against the US dollar. Meanwhile, after strengthening notably against sterling during February 2010, the underlying trend of euro depreciation evident since Q4 2009 continued in March, April and May 2010. At end-May the euro was trading at 4.7 per cent below its 2009 average against sterling, again with the more marked decline happening in May 2010.

B: Money and Credit

Monetary Aggregates

The euro area broad money supply (M3) declined by 0.2 per cent on an annual basis in May 2010, and the three-month moving average annual growth in M3 remained at minus 0.2 per cent as it has done since January 2010. This reflects a period of significant stability, following a consistent steady decline in the rates of M3 growth from late 2007. The trend of weak monetary growth, however, continues to be influenced by the opportunity cost of holding M3 assets relative to longer-term assets, albeit that this effect is waning. The Irish contribution to euro area M3 increased by 3.5 per cent on an annual basis in May 2010, with the annual growth averaging 2.7 per cent in the three months ending May 2010.

Underlying the increase in the Irish contribution to euro area M3 has been a significant expansion in M1 in Ireland from mid-2009, which recorded annual growth averaging 8.3 per cent in the three months ending May 2010. This rate of M1 growth has been declining, however, since its recent peak of 12.2 per cent in November 2009. The pace of growth of currency in circulation, which had been in excess of 40 per cent on an annual basis through most of 2009, has declined significantly so far in 2010, averaging 7.2 per cent in the three months ending May 2010. Meanwhile the annual rate of change in overnight deposits has remained relatively stable and has averaged 10 per cent in 2010 to date, although moderating somewhat in recent months. This follows the significant rebound in annual growth rates of overnight deposits in Q4 2009 which contributed strongly to overall M1 growth.

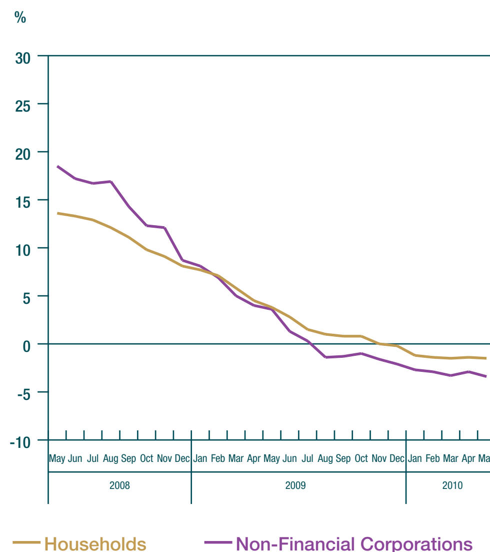
The relatively robust performance of M1, both domestically and at a euro area level has come at the expense of M2–M1 components, particularly term deposits, which continue to decline as they have done since mid-2009. This is partly due to interest rate developments over the past year, which makes it relatively more attractive for the money holding sectors to keep their financial assets in more liquid forms (e.g. overnight deposits, or redeemable at notice deposits), particularly in an

environment of economic uncertainty. The relatively steep yield curve is also encouraging some investors to transfer their funds into longer-term assets outside of the M3 measure, although this effect is most probably weakening. Overall, the Irish contribution to euro area M2–M1 has declined by 4.5 per cent in the 12 months ending May 2010, following annual declines of 3.6 per cent in March and 4.6 per cent in April 2010. Euro area M2–M1 has declined by 8 per cent over the year ending May 2010.

Developments in Private-Sector Credit Advanced by Irish Resident Credit Institutions

The annual rate of change in credit (which includes loans and securities) advanced to Irish households and non-financial corporations (NFCs) continued to decline in recent months. By end-May 2010, NFC credit had declined by 3.5 per cent from its peak in late 2008. The annual rate of change in NFC credit averaged minus 3.2 per cent in the three months ending May 2010, with the equivalent measure for the euro area as a whole being minus 2.2 per cent. The flow of NFC credit based solely on transactions was negative for six consecutive months from October 2009 through to March 2010, the longest period of decline since these data became available. The outstanding amount of NFC credit on the balance sheets of Irish resident credit institutions has, however, fallen significantly more than these underlying transactions, with the month-on-month change in outstanding amounts averaging minus €4.3 billion in the three months ending May 2010. Much of the difference between changes in on-balance sheet outstanding amounts and changes reflecting underlying business transactions relates to increased levels of write-downs on loans, as has been the case through most of 2009 and into 2010. Since March 2010, the decline in outstanding amounts of NFC loans also relates to the transfer of these loans to NAMA. In March, April and May of 2010, loans to Irish resident NFCs with a combined book value of approximately €8.8 billion were transferred to NAMA.

Chart 9: Annual Change in Credit: Households and Non-Financial Corporations



Source: CBFSAI.

Note: Rates of change presented here exclude the effect of revaluations, reclassifications and exchange-rate movements and most accurately reflect credit developments based on actual transactions over the period. The impact of securitisation or other means of loan disposal, including transfers to NAMA, are also excluded. See Box A 'Measuring Credit Growth — A New Approach', in Monetary and Financial Market Developments, CBFSAI Quarterly Bulletin No.1 2010. Back-data of these series to 2004 are available at http://www.centralbank.ie/frame_main.asp?pg=sta_late.asp&nv=sta_nav.asp.

The outstanding amount of loans to households advanced domestically by Irish resident credit institutions also continued to decline in recent months. The annual rate of change in household loans based on transactions was minus 1.5 per cent in May 2010, and averaged minus 1.4 per cent in the first five months of 2010. Equivalent data for the euro area as a whole show household loans increasing on an annual basis by 2.6 per cent in May, and averaging 2.4 per cent during the first five months of 2010. This would tentatively suggest that the lending cycle for euro area households as a whole has passed its trough, whereas the lending cycle for Irish households is lagging that of the wider euro area. The net flow of household loans was negative for nine out of the twelve months ending May 2010, as repayments were higher than draw-downs of loans during these months.

Box 2: The Irish Results of the Euro Area Bank Lending Survey, Q2 2010.

The July 2010 Bank Lending Survey (BLS) examines changes in credit market conditions during Q2 2010 and provides expectations regarding developments in credit conditions during the third quarter of 2010.

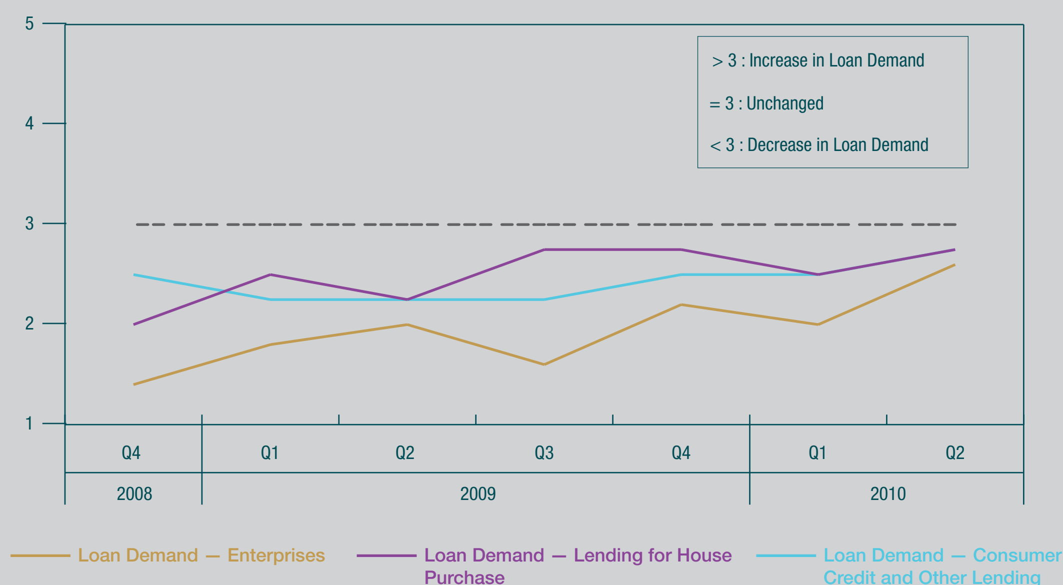
Table 2A: Change in Credit Standards: Loans to Enterprises and Households

		Actual		Expected
		Q1 2010	Q2 2010	Q3 2010
Enterprises:	Overall	2.60	3.00	3.00
	Small/medium enterprises	3.00	3.00	3.00
	Large enterprises	2.50	3.00	3.00
	Short-term loans	2.60	3.00	3.00
	Long-term loans	2.60	3.00	3.00
Households:	House purchase	2.75	2.75	3.00
	Consumer credit and other lending	2.75	3.00	3.00

Key: 1 = tightened considerably; 2 = tightened somewhat; 3 = basically unchanged; 4 = eased somewhat; 5 = eased considerably.
Source: CBFSAI.

For the first time in three years, credit standards were unchanged on loans to enterprises across all categories examined during Q2 2010 and this is reported in Table 2A. This follows 12 successive quarters of tightening credit standards on loans to enterprises. Reflecting this stabilisation in credit standards, increased *risk perception* was the only category contributing to a tightening of credit standards during Q2 2010 on loans to enterprises. However, an increase in loan margins and more restrictive non-price terms and conditions were also witnessed. In contrast, credit standards tightened marginally on loans to households for house purchase while standards were unchanged regarding consumer credit and other lending during the Q2 2010. During Q3 2010, credit standards are expected to remain unchanged on loans to enterprises and households across all categories.

Chart A: Change in Loan Demand: Enterprises and Households



Meanwhile, demand for loans from enterprises as well as households decreased across all categories examined during Q2 2010. However, the decline in loan demand from enterprises continued to decelerate and the reported decrease in loan demand from households was marginal. The decline in loan demand from enterprises was attributed to a reduction in the financing needs of enterprises reflecting lower levels of fixed investment, declining inventories and working capital, and reduced volumes of mergers and acquisitions activity. The decline in loan demand from households was attributed to a reduction in households' financing needs reflecting less favourable housing market prospects, reduced spending on consumer durables, and declining levels of consumer confidence.

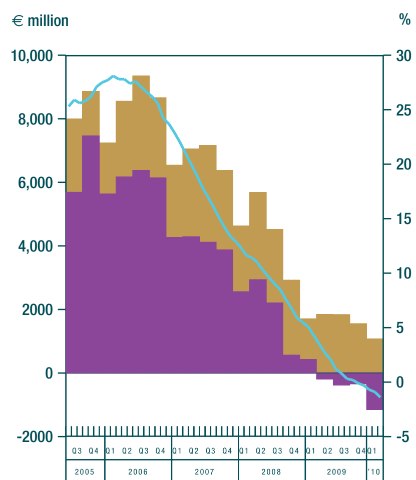
During Q3 2010, loan demand is expected to remain unchanged across all categories examined with the exception of house purchase loans where a small increase is forecast.

Underlying these developments in household loans have been declines in both mortgage and non-mortgage lending. The level of outstanding mortgages has been declining consistently since its peak of €148.5 billion in March 2009. Mortgage debt outstanding fell on a year-to-year basis by approximately €2.6 billion in May 2010, or 1.8 per cent, with the annual rate of decline averaging 1.6 per cent in the three months ending May 2010.

The latest data on the breakdown of residential mortgages relating to Q1 2010, continue to show that the decline in residential mortgage lending has mostly been concentrated in buy-to-let (BTL) mortgages and lending for the purchase of holiday homes (HHs). When the impact of rising impairment provisions are excluded, the underlying increase in mortgages for principal dwelling houses (PDHs) is estimated to have been approximately €1 billion during the quarter. Residential mortgages outstanding declined by 0.8 per cent in the first quarter of 2010. PDH lending was relatively unchanged over the year ending Q1 2010, compared with year-on-year growth of 5.1 per cent in Q1 2009. Meanwhile, the outstanding amount of BTL and HH mortgages were a combined 5.9 per cent lower in Q1 2010 compared with Q1 2009.

Turning to developments in credit by sector of economic activity, the most recent data show that the outstanding amount of credit advanced to the non-property non-financial business sectors[1] experienced a significant decline with a fall of €2.5 billion, or minus 5.5 per cent, during Q1 2010 (minus 0.9 per cent excluding the impact of write-downs/impairment provisions). This was due to general falls across most sectors. The manufacturing, agriculture and wholesale/retail trade sectors, recorded declines of €560 million, €387 million and €684 million respectively. The vast majority of the combined decline in outstanding amounts for these three sectors is estimated to be due to a fall in the underlying flow of credit, as changes in the level of impairment provisions reported has had relatively little impact on the outstanding amounts of lending.

Chart 10: Quarterly Increase in Residential Mortgages — New Lending and Outstanding Amounts



IBF Value of New Mortgage Drawdowns (LHS)

CBFSAI Net Increase in Residential Mortgages (LHS)

Residential Mortgage Lending Annual % change (adjusted) (RHS)

Source: CBFSAI and the Irish Banking Federation.

[1] The non-property business sectors are defined as business sectors excluding construction, real estate activities and the financial intermediation sector. Social and personal sectors are also excluded in this categorisation.

Table 1: Private-Sector Credit by Sector of Economic Activity[a]

	Total stock at end-Mar. 2010		Change in Credit[a]					
			Stock Q-on-Q		Estimated Underlying Q-on-Q		Stock Y-on-Y	
	€ million	% share	€ million	% change	€ million	% change	€ million	% change
Primary industries[b]	5,251	1.3	–407	–7.2	–354	–6.0	–1,166	–18.2
Manufacturing	6,568	1.7	–560	–7.9	–509	–6.8	–2,004	–23.4
Electricity, gas and water supply	767	0.2	–355	–31.6	–356	–31.5	–484	–38.7
Construction	12,659	3.2	–1,730	–12.0	–984	–5.4	–8,626	–40.5
Wholesale/retail trade and repairs	11,891	3.0	–684	–5.4	–447	–3.4	–2,162	–15.4
Hotels and restaurants	10,578	2.7	–175	–1.6	2,030	17.0	–858	–7.5
Transport, storage and communications	2,707	0.7	–303	–10.1	–222	–7.0	–641	–19.1
Financial intermediation	83,857	21.4	1,230	1.5	1,057	1.3	–1,904	–2.2
Real estate activities	81,089	20.7	–2,400	–2.9	637	0.7	–7,741	–8.7
Non-real estate business service activities	5,881	1.5	–32	–0.5	–610	–8.4	–1,275	–17.8
Services to households[b]	5,937	1.5	–399	–6.3	–347	–5.3	–571	–8.8
Personal	164,398	42.0	–3,065	–1.8	–2,419	–1.4	–7,099	–4.1
of which:								
— Residential mortgages	146,473	37.4	–1,150	–0.8	–354	–0.2	–2,070	–1.4
— Principal dwelling houses	113,325	28.9	414	0.4	1,015	0.9	4	0.0
— Buy-to-lets	31,868	8.1	–1,477	–4.4	–1,286	–3.8	–2,038	–6.0
— Holiday homes/ second houses	1,279	0.3	–87	–6.4	–83	–6.1	–35	–2.7
— Other housing finance	526	0.1	–129	–19.7	–45	–6.0	–373	–41.5
— Other	17,400	4.4	–1,785	–9.3	–2,020	–9.2	–4,656	–21.1
Total	391,584	100.0	–8,879	–2.2	–2,524	–0.6	–34,529	–8.1
Total PSC (Table A2.2, Monthly Statistics)	***355,008***		***–11,238***	***–3.1***			***–37,250***	***–9.5***

[a] The Total figure in Table 1 includes securitised residential mortgages which have been added back into lending to the Personal sector to give a more accurate figure for personal borrowing. Some of the mortgage-backed securities created with these loans have been purchased by Irish resident credit institutions and would also be included under Financial Intermediation above. As such there is an element of double-counting in the Total figure. The official level of PSC outstanding (inclusive of accrued interest) is reported in Table A2.2 of the CBFSAI Monthly Statistics and is shown in the last row of Table 1 above, along with the unadjusted quarterly and annual changes in PSC. The adjusted growth rates for total PSC (which account for exchange-rate valuation effects and lending to non-bank IFSC companies), mortgage and non-mortgage credit are available from Table A2.2 of the CBFSAI Monthly Statistics.

[b] Primary industries refer to agriculture, forestry, fishing, and mining and quarrying. Services to households includes education, health, and other personal services.

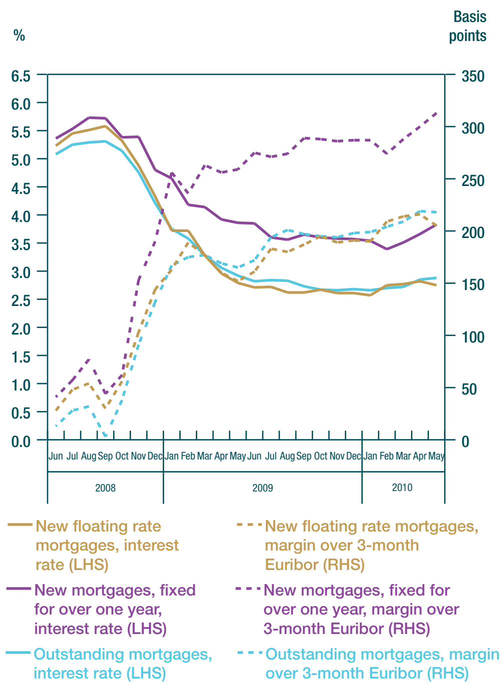
Source: CBFSAI. Data are based on NACE Rev. 1 industrial codes. For earlier data see Table C8 of the CBFSAI Quarterly Bulletins.

The decline in the outstanding amount of credit to the property-related business sectors (construction and real estate activities combined) continued in Q1 2010, with a quarter-on-quarter decline of 4.2 per cent. Credit advanced to these sectors declined by €4.1 billion during the first quarter of 2010. Year-on-year credit outstanding to these sectors fell by 14.9 per cent. Both the annual and quarterly developments in lending to the combined construction and real estate sectors are mostly due to valuation effects, such as increased levels of bad debt provisions and write-downs of loans.

Domestic Lending and Deposit Rates

Interest rates on loans to household customers increased over the period from end-January to end-May 2010. Outstanding and new mortgage rates rose between January and May as lenders have moved to increase margins over funding costs. New mortgages with floating rates or up to one year fixation experienced an increase of almost 20 basis points in the average rate, to 2.8 per cent. This marks a return to the level of May 2009, when the ECB most recently cut the main refinancing rate. The average rate for new mortgages fixed for periods greater than one year — which constitute an increasing proportion of new mortgage agreements — increased by 30 basis points between January and May. The average rate for existing mortgages rose from 2.7 per cent to 2.9 per cent over the period, as rates for variable-rate customers were increased.

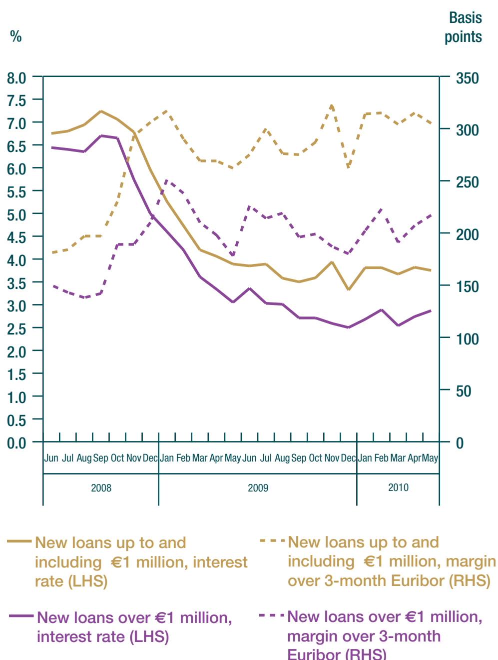
Chart 11: Mortgage Rates to Households



Source: CBFSAI.

Rates and margins on NFC lending have remained quite variable, with a different outturn for smaller versus larger loans to businesses. Rates on new short-term or variable-rate loans to NFCs increased by 19 basis points between

Chart 12: New NFC Loans with Floating Rate and up to One-Year Initial Fixation



Source: CBFSAI.

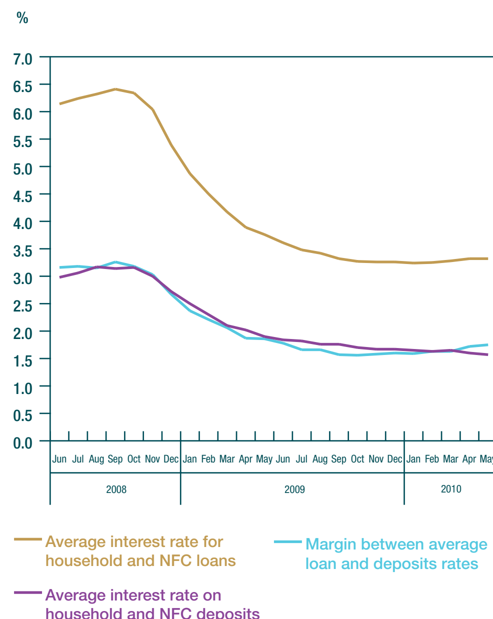
January and May. This follows a period of declining rates in the second half of 2009. The margin between this lending rate and 3 month Euribor also increased, by 15 basis points.

Rates for new loans of less than €1 million — which are often used as a proxy for SME lending — have fallen slightly since the beginning of the year.

Deposit rates for households and NFCs have also fallen. Interest rates on outstanding household deposits with a maturity up to two years fell by 25 basis points between January and May. The proportion of household deposits which are redeemable at notice continued to increase, although there was a small fall in the average rate of 6 basis points over the period. Overnight NFC deposits saw a decrease of 11 basis points in the average rate from January to May — to a record low of 0.2 per cent.

These efforts by credit institutions to widen their margins are reflected in the upward trend in the difference between the average loan rate on outstanding lending and the average rate offered on outstanding deposits to households and NFCs. This follows a tightening in this margin between the beginning of the rate-cutting cycle in October 2008 and late 2009.

Chart 13: Margin between Loan and Deposit Rates



Source: CBFSAI.

An Timpeallacht Gheilleagrach

Tá na forbairtí sa timpeallacht idirnáisiúnta measctha le cúpla mí anuas. Ar an taobh deimhneach, cé go bhfuil imní ann fós maidir le neart an téarnaimh i dtíortha áirithe, bhí an téarnamh tosaigh san fhás domhanda níos fearr i gcoitinne ná mar a bhíothas ag súil leis roimhe sin, rud a léiríonn ar bhealach an tacaíocht eisceachtúil a cuireadh ar fáil leis na beartais airgeadaíochta agus na beartais fhioscacha. Is léir anois freisin, áfach, go gcruthaítear fothorthaí leis na beartais chéanna seo a d'fhéadfadh a bheith díobhálach, go háirithe na heasnaimh arda, fhioscacha, neamhinbhuanaithe atá ag teacht chun cinn. In éineacht leis na leochaileachtaí atá fós san earnáil airgeadais, d'fhéadfaidís seo moill a chur ar an téarnamh idirnáisiúnta nó, sa chás is measa, deireadh a chur leis fiú.

Bhí an éifeacht ba mhó a bhí ann go dtí seo teoranta den chuid is mó do bhrúnna sna margaí airgeadais an athuair, go háirithe na margaí sin ina bhfaigheann rialtais agus bainc maoiniú. Bhain na hábhair imní seo go mórmhór le roinnt tíortha Eorpacha.Sa mheántéarma, níl aon fhreagairtí beartais ann atá sásúil chun déileáil leis na forbairtí seo ach amháin na beartais um chomhdhlúthú fioscach sna tíortha sin is mó atá buailte le fiachas poiblí méadaitheach agus fógraíodh cuid mhaith díobh seo cheana féin. Thairis sin, tá bearta á nglacadh chun aon fhadhbanna eile atá fós ann san earnáil airgeadais a shainaithint agus a réiteach i bhfoirm tástálacha struis ar bhainc atá idir lámha ag maoirseoirí Eorpacha agus gealltanais ghaolmhara ó rialtais chun tacú le hinstitiúidí nuair is gá.

Glacadh bearta eile freisin, chun faoiseamh a thabhairt ón mbrú sa mhargadh, amhail bunú an Chiste Eorpaigh um Chobhsaíocht Airgeadais (EFSF) agus Chlár Mhargaí na n-Urrús (SMP) de chuid an BCE. Mar thoradh ar na brúnna is déanaí, ar ndóigh, tá tús curtha freisin le scrúdú ar an gcaoi inar féidir an rialachas geilleagrach san AE a neartú chun géarchéimeanna den sórt sin a sheachaint amach anseo. A mhéid a bhaineann leis an éifeacht láithreach atá ag na brúnna margaidh seo, dealraíonn sé, go dtí seo, nach raibh ach éifeacht shrianta acu ar sheintimint, arna thomhas le suirbhéanna ar ghnólachtaí agus ar thomhaltóirí, agus dá dheasca sin, ar an bhfíorgheilleagar. Ar aon dul leis seo, ní dearnadh difear suntasach go dtí seo do na réamh-mheastacháin fáis do chomhpháirtithe trádála na hÉireann ó ghníomhaireachtaí idirnáisiúnta. Tá neamhchinnteacht ag baint leis na réamhaisnéisí seo, áfach, sa timpeallacht reatha eacnamaíoch.

Maidir le forbairtí intíre, dealraíonn sé gur tháinig forás ar an ngeilleagar mar a bhíothas ag súil leis, a bheag nó a mhór, sa chéad leath den bhliain 2010. Treisíodh feidhmiú na hearnála onnmhairiúcháin go mór mhór mar gheall ar fheidhmiú maith na hearnála ilnáisiúnta. Bhí sé seo le brath i sonraí na gcuntas náisiúnta don chéad ráithe inar léiríodh fás suntasach OTI ráithe-ar-ráithe ach titim bheag san OTN. Na tásca sin dá ngairtear tásca 'boga', amhail suirbhéanna na mbainisteoirí ceannaigh, chomh maith le táscairí ardmhinicíochta eile, amhail táirgeadh tionsclaíoch agus miondíolacháin, tugtar le tuiscint leo gurb amhlaidh a bhí an scéal sa dara ráithe freisin. Tríd is tríd, tá na forbairtí seo i gcomhréir le spreagadh dearfach atá ag teacht de réir a chéile ón taobh eachtrach den gheilleagar agus atá ag éirí níos treise de réir a chéile ná an chúltarraingt ar aschur atá ann fós ó fhoinsí intíre, cé go bhfuil sí seo ag laghdú.

Má ghlactar leis nach ndéantar difear suntasach don éileamh eachtrach leis an straidhn reatha sna margaí airgeadais agus ag na bearta fioscacha a ghabhann léi, d'fhéadfá a rá gur mar seo atá an scéal tríd is tríd i gcónaí. Ar bhonn na meán bliantúil agus ag cur na sonraí ráithiúla is déanaí san áireamh, tugann sé seo le tuiscint go bhfuil méadú tuairim is 0.8 faoin gcéad ar mhéid na hOTI agus laghdú tuairim is 1.0 faoin gcéad san OTN, agus go leanfar é seo le méadú sa raon 2.2 go 2.8 faoin gcéad ar an dá thomhas an

bhliain seo chugainn. Lean an fhostaíocht de bheith ag titim, cé go bhfuil ráta na titime sin moillithe, rud a léiríonn go bhfuil an t-éileamh intíre cuíosach lag agus go bhfuil an fhostaíocht chun deiridh le forbairtí san aschur. Go deimhin, ní dócha go gcobhsóidh an méadú ar fhostaíocht roimh dheireadh na bliana seo agus is cosúil nach bhfeicfear brú anuas ar dhífhostaíocht ón bhfoinse seo ach de réir a chéile i rith na bliana atá le teacht.

Beidh ionchais fáis an gheilleagair ag brath ar an timpeallacht eachtrach agus chomh maith leis sin rachaidh forbairtí intíre i gcion orthu, go háirithe a mhéid a bhaineann le trí heochaircheist beartais faoi láthair — normalú na earnála baincéireachta, comhdhlúthú an airgeadais phoiblí agus feabhsú riocht iomaíochais an gheilleagair. Maidir leis an earnáil baincéireachta, b'ionann an meathlúchán ginearálta ar choinníollacha an mhargaidh airgeadais i rith an dara ráithe agus forbairt dhiúltach don earnáil, mar a bhí i dtíortha eile agus, d'ainneoin roinnt feabhsuithe, tá na coinníollacha deacair i gcónaí. I gcomhthreo leis na gníomhaíochtaí ar an leibhéal Eorpach, amhail na tástálacha struis atá idir lámha ag na maoirseoirí Eorpacha agus bunú an EFSF agus an SMP, tá faomhadh an AE faighte ag na húdaráis intíre chun an ráthaíocht ar dhliteanais na mbanc a leathnú d'fhonn tacaíocht a thabhairt don earnáil go dtí go normalóidh na coinníollacha. Le héifeacht na mbeart seo le chéile, ar an leibéal Eorpach agus ar an leibhéal náisiúnta, ba cheart go dtacófaí tuilleadh le feabhsuithe ar choinníollacha an mhargaidh, rud a éascóidh próiseas normalúcháin na hearnála baincéireachta.

Taobh amuigh d'éifeacht shuntasach aonuaire thacaíocht an rialtais don earnáil baincéireachta, léiríonn sonraí an airgeadais phoiblí don chéad sé mhí den bhliain staid atá ar aon dul tríd is tríd leis an rud a bhíothas ag súil leis. Dheimhnigh an Coimisiún Eorpach freisin nach bhfuil gá le haon bhearta eile don bhliain seo, thar a bhfuil curtha chun feidhme cheana féin, chun a chinntiú go gcomhlíonfar an clár coigeartaithe atá leagtha amach cheana féin ag an rialtas agus atá comhaontaithe leis an gCoimisiún. Tá teannadh suntasach, breise ar an staid fhioscach thar an tréimhse chomhdhlúthúcháin go dtí 2014 i gceist leis an gclár féin. D'fhonn na spriocanna seo a bhaint amach, ní foláir sonraí na mbeart comhdhlúthúcháin a leagan amach go soléir, iad a chur chun feidhme gan mhoill agus a bheith ullamh chun bearta breise a ghlacadh más gá. Tá sé ríthábhachtach go gcloífear leis an gclár um chiogeartú. I gcomhthéacs na mbeart dian, fioscach atá á nglacadh ag Ballstáit AE eile, gníomhaíocht luath a leagfaidh béim ar an diongabháilteacht náisiúnta chun an t-airgeadas poiblí a bhainistiú, rud a chuideoidh le costais iasachtaíochta ar na margaí idirnáisiúnta agus cuideoidh sé seo leis an ualach coigeartaithe a ísliú. Tá tábhacht mhór ag baint leis freisin mar eilimint a thacaíonn le hathshlánú na muiníne sa bhaile. Ina leith sin, cuideoidh comhaontú 'Pháirc an Chrócaigh' ar thángthas air le déanaí le creidiúnacht an chláir um choigeartú fioscach agus cuideoidh sé freisin le timpeallacht chobhsaí a chur ar fáil don chaidreamh tionsclaíoch.

Tá feabhas ag teacht i gcónaí ar staid iomaíochais na tíre. Maidir le gluaiseachtaí i dtáscairí meántéarmacha de staid choibhneasta an gheilleagair, agus bearta amhail costais choibhneasta aonad saothair i gcomhairgeadra, leanann said de bheith ag druidim sa treo ceart. I gcás formhór na mbeart, aisghabhadh cuid den talamh a cailleadh sa tréimhse deich mbliana go dtí 2008 agus táthar ag súil le gnóthachain eile don bhliain seo agus don bhliain seo chugainn. Leis an bhfeabhsú seo, léirítear athruithe earnálacha sa gheilleagar, áfach, amhail imeacht ón bhfoirgníocht agus ó na seirbhísí agus gluaiseacht i dtreo earnálacha onnmhairiúcháin níos ardtáirgiúlachta. Taobh amuigh de sin, níl an feabhas bunúsach chomh mór sin, cé go bhfuil sé suntasach agus is comhartha é seo go bhfuil gá i gcónaí le srian ar phá i gcoibhneas le tíortha eile.

Mír eile den iomaíochas is ea sraith gnéithe níos struchtúraí agus níos fadtéarmaí den gheilleagar a chuireann lena tharraingteacht mar shuíomh do ghníomhaíocht gheilleagrach, cibé acu infheisteoirí isteach nó gnólachtaí intíre atá i gceist. Cuimsíonn na gnéithe seo

timpeallacht a thacaíonn le gnó, bonneagar maith geilleagrach, seirbhísí éifeachtúla poiblí, iomaíocht leordhóthanach san earnáil neamhthrádála i gcoitinne agus lucht saothair oilte, inoiriúnaithe. Caithfear aghaidh a thabhairt ar ghnéithe gearrthéarmacha agus fadtéarmacha den iomaíochas araon go comhuaineach chun toradh dearfach a bhaint amach. Mar shampla, mura mbeidh costais in Éirinn ar aon dul leis na costais i ngeilleagair iomaíocha, ba bheag an leas a d'fhéadfaí a bhaint as lucht saothair oilte ann féin agus is éard is dóichí a tharlóidh go dtiocfaidh méadú ar ghlaneisimirce. Ar an gcuma chéanna, má leantar de bheith ag cur brú anuas ar chostais gan aon infheistíocht a dhéanamh i lucht saothair oilte, déanfar an caighdeán maireachtála a ísliú seachas a fheabhsú. Maidir le formhór na ngnéithe fabhracha struchtúracha den gheilleagair a bhí ann le linn thréimhse tosaigh an fháis láidir, roimh bhlianta neamhinbhuanaithe an bhorrtha a tháinig níos déanaí, tá said ann fós ach tá gá le coigeartuithe leanúnacha i leith praghsanna coibhneasta agus i leith costas chun go mbainfear tairbhe astu i dtéarmaí aschuir níos láidre agus fás fostaíochta sna blianta atá le teacht.

Developments in the International and Euro Area Economy

Overview

The international economic environment has been dominated by the intensification of the European sovereign debt crisis in recent months. European policymakers have taken significant steps in response to renewed global financial market turbulence, introducing a comprehensive package to provide assistance to Member States in serious financial distress and agreeing to implement credible fiscal consolidation strategies. More generally, global activity continued to expand at a robust pace in the first half of the year. There are increasing signs that the global growth rate may have peaked in the second quarter, but the latest forecasts continue to expect a solid global recovery this year and next. These forecasts also acknowledge that downside risks have increased in recent months, however. On prices, given the extent of the downturn, inflationary pressures are expected to remain subdued in advanced economies over the medium term with higher inflation in some fast-growing emerging economies.

The economic environment has been dominated by the intensification of the European sovereign debt crisis in recent months. Against the backdrop of growing fears that serious financing problems in Greece could spread to other euro area economies, global financial markets experienced a renewed period of turbulence, as uncertainty and volatility increased sharply. With global financial stability concerns growing once again, European policymakers responded by introducing a comprehensive package to provide assistance to any Member State in serious financial distress (see Box 1), while at the same time agreeing to implement credible fiscal consolidation strategies. The latter measures are likely to have some negative impact on economic growth in the region in the near term, but the longer-run benefits of fiscal consolidation are well established. Given that the market tensions were hampering the monetary policy transmission mechanism, the ECB also responded by taking a number of important measures, most notably conducting interventions in euro area government debt securities markets. The subsequent sterilising of these interventions ensures that the monetary policy stance is not affected.

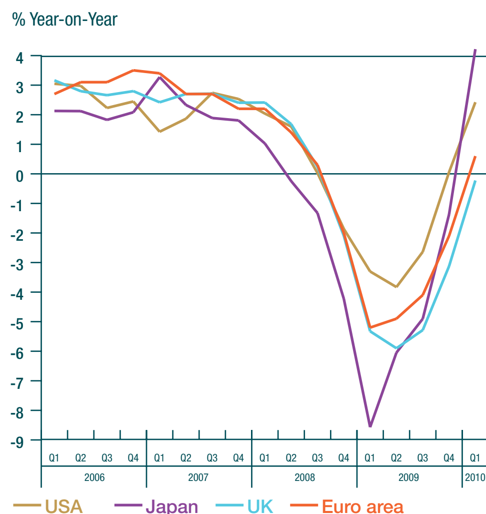
Despite the intensification of the debt crisis, global activity continued to expand at a robust pace in the first half of the year. While the growth rate continued to be driven by developments in emerging economies over this period — and emerging Asia in particular — there were also further indications that the recovery was broadening out to advanced economies, and also from the manufacturing to the services sector. More recent data suggest that the global growth rate may have peaked in the second quarter and that the expansion will occur at a slower pace in the second half of the year. This is likely to reflect a number of factors including deliberate policy tightening in some emerging economies, the peaking of the inventory cycle and the weaker impact of stimulus policies on growth rates. Nevertheless, the latest forecasts continue to expect a relatively strong recovery. Following a contraction of close to 1 per cent last year, the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) expect global growth of around 4½ per cent this year and next. Developments are still expected to be somewhat uneven, with a slower recovery occurring in advanced economies reflecting headwinds related to the financial crisis. The recovery in Europe is expected to be slower still, given the introduction of consolidation measures, although the long term benefits of such measures are expected to outweigh the short term costs. At the same time, the risks to the growth outlook have clearly increased in recent months. The IMF note that ‘downside risks have risen sharply’ and their forecasts ‘hinge on implementation of policies to rebuild confidence and stability, particularly in the euro area’.

Table 1: Changes in Real GDP in Selected Economies

	Percentage Change		
	2009[e]	2010[f]	2011[f]
Global	–0.6	4.6	4.3
United States	–2.4	3.3	2.9
Japan	–5.2	2.4	1.8
Euro area	–4.1	1.0	1.3
United Kingdom	–4.9	1.2	2.1
China	9.1	10.5	9.6

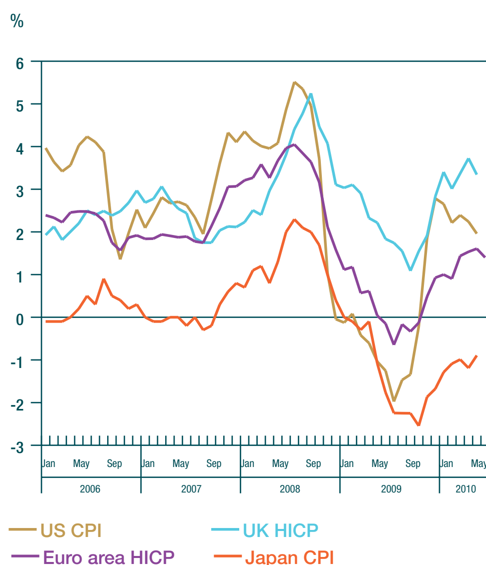
[e] Estimate
[f] Forecast.
Source: World Economic Outlook Update, July 2010.

Chart 1: GDP Growth



Source: Reuters EcoWin

Chart 2: Inflation in the Major Economies



Source: Reuters EcoWin

Turning to inflation developments, headline rates have generally increased in advanced economies in the first half of the year reflecting higher energy prices. Core rates, on the other hand, which exclude energy prices, are generally subdued and are expected to remain that way reflecting low capacity utilisation, weak labour markets and well anchored inflation expectations. In some emerging economies there is evidence of stronger inflationary pressures, but policymakers have been quick to respond to these by tightening policy where necessary.

Section 1: Euro area

Economic Growth — Recent Developments

Following a marginal increase in the final months of 2009, euro area real GDP growth remained weak in the first quarter of this year, increasing by just 0.2 per cent (quarter-on-quarter). As Table 2 outlines, exports increased sharply over this period, boosted by a weaker euro and robust global activity. The external sector as a whole weighed on real GDP, however, as imports also recorded very strong growth. Inventories in the region continued to decline, but did so at much slower pace than in the preceding quarter, and as a result stock adjustment made a significant positive contribution to the growth rate. Domestic demand remained subdued, as the ending of car scrappage schemes resulted in a sharp decline in auto purchases, the weak labour market continued to weigh on consumer spending and construction output declined sharply against the backdrop of unseasonably poor weather. The latest data point to an acceleration in the growth rate in Q2, despite the intensification of the sovereign debt crisis over this period. The immediate impact of the crisis on the real economy does not appear to

Table 2: Contributions of expenditure components to percent change in real euro area GDP

	2009			2010
	Q2	Q3	Q4	Q1
Personal Consumption	0.1	–0.1	0.1	–0.1
Government Consumption	0.1	0.1	0.0	0.0
Fixed Investment	–0.3	–0.2	–0.2	–0.2
Inventories	–0.6	0.5	0.0	1.0
Exports	–0.4	1.1	0.7	0.8
Imports	1.0	–1.0	–0.4	–1.3
GDP	–0.1	0.4	0.1	0.2

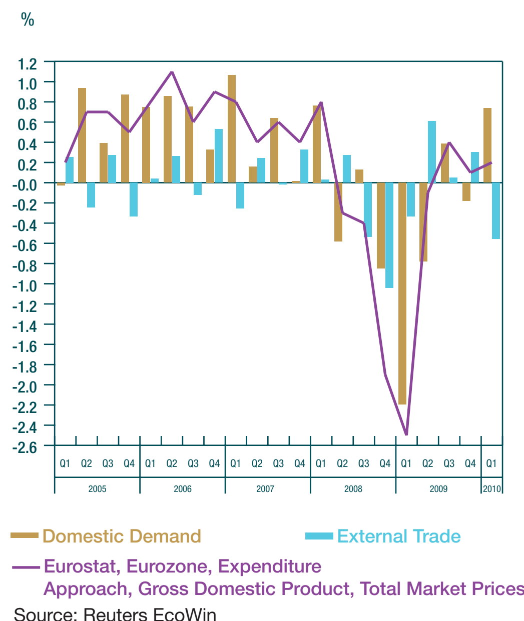
Source: Eurostat.

have been significant. Business confidence was broadly stable in recent months, perhaps reflecting the offsetting impact of a weaker euro, and while consumer confidence experienced a sharp fall in May it subsequently stabilised in June. The latest forecasts estimate growth of around 0.6 per cent in the second quarter, with output supported by foreign demand, and domestic demand — excluding construction — remaining weak. If these estimates prove accurate, output would have increased by an average of 0.4 per cent per quarter in the first half of the year, stronger than in the second half of 2009, but weaker than the growth rates experienced by many of the other major advanced economies over this period.

Economic Growth — Outlook

The euro area recovery is expected to continue, but is now likely to occur at a more gradual pace than was anticipated at the time of the last Quarterly Bulletin. This primarily reflects the negative short term impact of fiscal consolidation, which is due to begin in a number of economies next year. The long run benefits of such measures are expected to outweigh these short run costs, however. The latest ECB staff projections anticipate that euro area real GDP will grow by between 0.7 and 1.3 per cent in 2010 and by between 0.2 and 2.2 per cent in 2011, projections broadly in line with the latest forecasts produced by the IMF. The recovery is also expected to remain somewhat uneven, over time and across economies and sectors. There are already indications that growth may moderate somewhat in the second half of this year as the factors that temporarily boosted growth in the initial phase of the recovery — such as the fiscal stimuli and the inventory cycle — diminish in strength. Focusing on the demand components, the recovery in exports is expected to continue against the backdrop of robust global growth and improved competitiveness. Domestic activity, on the other hand, appears likely to remain subdued given the still low level of capacity utilisation, the necessity for further balance sheet adjustment across a number of sectors and a very gradual recovery in the region's labour market. The risks to the growth outlook over the near term, meanwhile, appear on the downside, given the potential for the consolidation to have a bigger than expected impact on growth in both the euro area and the global economy more generally. The former could result in an even weaker expansion in domestic demand, while the latter could see a slower recovery in foreign demand. If such action was not taken, however, the risks to the global growth outlook could have been much more significant.

Chart 3: Contributions to Real GDP Growth, 2005-2010



Source: Reuters EcoWin

Box 1: Stabilisation Measures in Europe

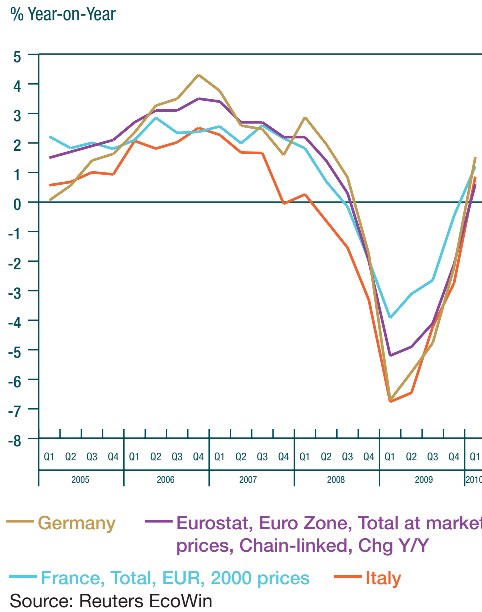
In October 2009, the true extent of Greece's fiscal problems came to light when the new government took office. The revelation that the fiscal deficit was significantly higher than originally forecast had a seriously negative impact on external confidence, and the outlook for the Greek economy was downgraded by the three main ratings agencies. By the first quarter of the year, the dramatic fall in confidence had made it increasingly more expensive for Greece to obtain finance on international markets, and with more than €27 billion worth of Greek debt maturing in 2010, as well as new borrowing requirements, the expense was unsustainable at the punitive interest rates being demanded by markets. Concerns of a contagion effect — which would see other euro area countries develop similar funding problems — also grew over this period, as bond spreads increased in a number of other economies.

Against this backdrop, a joint EU/IMF programme was announced on 25 March 2010 amounting to €22 billion, with Europe taking the lead role and supplying two thirds of the financing. This programme was subsequently expanded to €45 billion on 11 April 2010, but proved insufficient to satisfy markets. After an initial decline, Greek bond spreads increased sharply in the following weeks, while spreads trended upwards elsewhere in the region. By early May, Greece had lost access to the markets and so a final rescue package was launched, amounting to €110 billion, with €80 billion provided by euro area Member States and the remaining €30 billion supplied by an IMF Stand-By Arrangement. Again, after a positive initial impact, bond spreads increased once again, sharply in Greece and notably elsewhere in the region.

As a result, additional measures were announced to address tensions in sovereign debt markets in the wider euro area, and to safeguard financial stability in general. On 9 May 2010, the EU's finance ministers adopted a European Financial Stabilization Mechanism with a total volume of up to €500 billion, of which €60 billion will come from the EU surplus fund and up to €440 billion will be put forward by euro area member states through Special Purpose Vehicles (SPV). The SPVs will be guaranteed by the participating member states in proportion to their capital contribution at the ECB and will expire after three years. The IMF will also participate, providing at least half as much as the EU contribution, bringing the total support to about €750 billion. Member States that find themselves in difficulties that are caused by exceptional circumstances may ask for financial assistance from the mechanism.

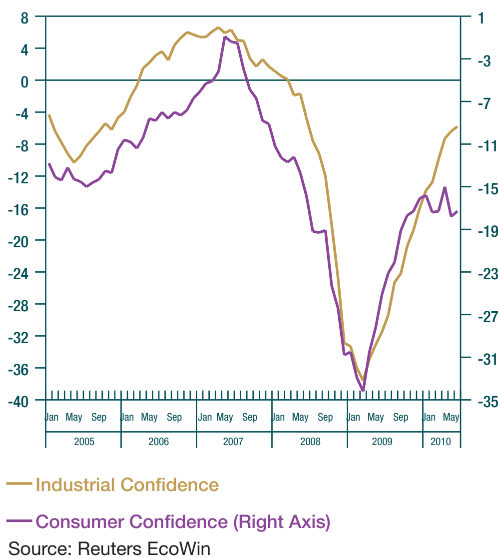
The following day, on 10 May 2010, the ECB announced a number of measures to address severe tensions in certain market segments. These included a Securities Markets Programme whereby the Eurosystem began purchasing euro area public and private debt securities with the aim to reestablish a normal functioning of the markets and to restore the appropriate monetary policy transmission mechanism. These bond purchases do not represent quantitative easing and the additional liquidity of these purchases will be sterilized immediately.

Chart 4: Euro Area GDP Growth



Source: Reuters EcoWin

Chart 5: Euro Area Confidence Indicators



Source: Reuters EcoWin

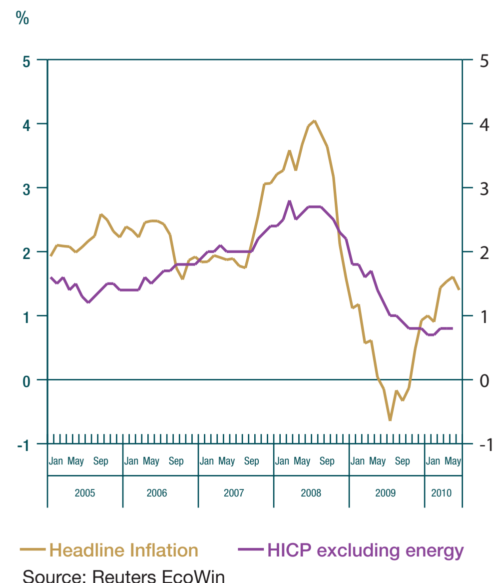
Inflation — Recent Developments

According to Eurostat, headline HICP inflation for the euro area was 1.4 per cent in June 2010, down from 1.6 per cent in May, as oil prices started retreating in the course of May. The sectoral breakdown shows that the oil-energy component, the dynamics of which are predominatly determined by oil prices, has been the main driver of inflation over the recent past. Excluding energy, inflationary pressures remain contained and have been stabilizing at around 0.8 per cent in annual terms over recent months. Indicators of labour cost growth for the first quarter of 2010 further suggest that domestic price pressures remain subdued. The annual growth rate in compensation per employee has been stabilizing at around 1.4 since the second quarter of 2009. Hourly labour costs increased modestly on a yearly basis to 2.1 per cent in the first quarter of 2010 from 1.7 per cent in the fourth quarter of 2009, but the rate of increase remains considerably below its historical average.

Oil and Other Commodity Prices

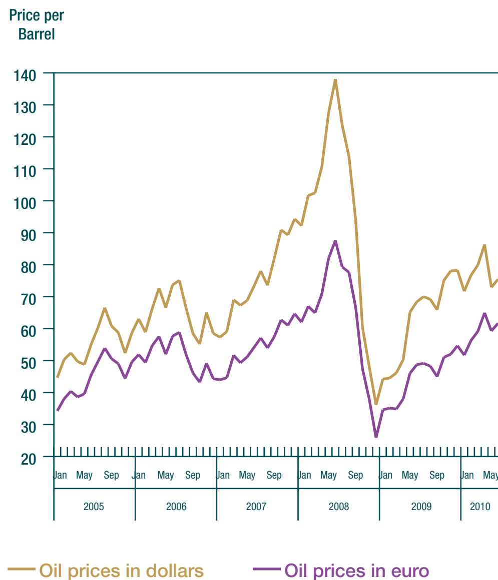
Oil prices increased sharply over the course of March and April, with cumulative growth in Brent crude prices over these two months of 15 per cent. Since then, against the backdrop of the sovereign debt crisis and concerns about the strength of the global recovery, the trend in oil prices has reversed. At the end of June 2010, oil prices stood at $75 per barrel, down from their 2010 peak of $88 observed in early May just before the intensification of the sovereign debt crisis.

Chart 6: Euro Area Inflation Indicators



Source: Reuters EcoWin

Chart 7: Oil Prices — Brent Crude



Source: Reuters EcoWin

Since the start of the year, food commodity prices have been decreasing on average as a result of the increase in world supplies in response to the 2008-2009 food prices boom. Non-ferrous metals are also lower for the first six months of the year, while iron ore prices increased following the price surge in April and strong demand from China. Iron ore benchmark contract prices are traditionally set for the 12 months from April on the basis of expected supply and demand for the next 12 months. The prices prior to April 2010 were set at the depth of the economic crisis, hence not reflecting China's growth which is the largest world importer of iron ore, and as such have been reset at a much higher level. Furthermore, the iron-ore industry has started moving from the annual fixed pricing mechanism towards a more flexible one.

Inflation — Outlook

The latest ECB staff projections expect HICP inflation to average between 1.4 and 1.6 per cent this year and between 1.0 and 2.2 per cent in 2011. While these projections represent an upward revision from the previous ones released in March, this primarily reflects developments in oil prices. HICP inflation excluding energy is expected to remain subdued given the significant amount of spare capacity in the economy and the expectation of a gradual economic recovery. Consumer inflation expectations, as measured by the European Commission survey, support this view of subdued domestic price pressures. While they have continued their upward trend in recent months, these expectations remain substantially below their long run average. Upside risks to the projections relate primarily to the future evolution of indirect taxes and administered prices against the backdrop of fiscal consolidation. Downside risks relate to the uncertainties surrounding the region's growth outlook.

Section 2: External Environment

Emerging EU Member States

The economies of the eight emerging non-euro area EU member states have generally continued to stabilise, though there are significant cross-country differences in the rate of recovery and a high degree of volatility within countries. These signs of recovery have largely been driven by an improvement of the external environment, with the outlook for global growth looking more positive in recent months, as well as an improvement in consumer confidence. Countries with flexible exchange rates have also benefited from currency depreciation and now find themselves in a more competitive position than before the crisis. However, economic recovery is expected to come about only gradually, as domestic demand remains relatively weak, with consumption constrained by high unemployment rates and ongoing deleveraging in the banking sector, and international investors remaining cautious. Growth is forecast to turn positive in 2010 for most of the new member states except Latvia and Romania, while Poland is set to continue growing strongly. Uncertainty surrounding the outlook also remains high, with risks stemming from fragile financial markets and the possibility of further fiscal consolidation which could constrain growth in the short-run. Inflation has bottomed out in the new member states and is once again rising, although rates remain subdued due to the still high level of excess capacity. The recent pick up in prices has been driven by developments in commodity and energy prices, while planned increases in administered prices may affect inflation going forward. However, a continuing period of moderate inflation is expected until economic recovery becomes more entrenched.

Box 2: An overview of euro area enlargement, recent developments and outlook

Once a country joins the EU, it is expected to join the euro area. Only Denmark and the UK have the right to opt out as per derogations written into the EU Treaty. The process is not immediate, however, as a country can only join the euro area having fulfilled the Maastricht convergence criteria. These are designed to ensure that a county has achieved a high degree of economic convergence with the euro area upon accession. The criteria are:

Price stability — a price performance that is sustainable and an average inflation rate within 1½ percentage points of the three best performing Member States over the previous 12 months;

Fiscal stability — the government deficit to GDP ratio should not exceed 3% and the government debt to GDP ratio should not exceed 60% or else be in the process of reaching this target at a satisfactory pace;

Exchange rate stability — membership of the exchange rate mechanism (ERM) for at least two years without undue tensions or devaluation;

Durability of convergence — reflected in long-term interest-rates on government bonds within two percentage points of the three best performing Member States in terms of price stability over the previous 12 months;

Other factors — the integration of markets, the balance of payments, unit labour costs and other price indices.

Each EU country without a derogation is assessed by the European Commission and the European Central Bank, by means of a Convergence Report from each institution, every two years or when a country applies to join the euro area. These reports are considered by EU Finance Ministers who make a recommendation to EU Heads of State in the case of a country application. EU Heads of State then make the decision as to whether a country should join the euro area. The decision becomes final when EU Finance Ministers set the conversion rate of the currency vis-a-vis the euro.

These criteria mean that a country cannot join the euro area for at least two years (required membership of ERM) after joining the EU but, in practice, it can take much longer for countries that are significantly behind the euro area in terms of GDP per capita. These economies are subject to convergence pressures due to their competitiveness attractions in a single market, including low labour and capital costs and the potential for substantial productivity gains as new technologies are adopted. Managing the resulting large capital inflows so that the economy does not overheat is a major policy challenge.

In the event, the emerging EU member states have adopted different fiscal and monetary policies to manage convergence pressures. The most significant policy decisions have been in the choice of exchange rate regimes.

Some countries with fixed exchange rates, namely the Baltic States (Estonia, Latvia and Lithuania) and Bulgaria, have produced

relatively strong fiscal performances, encouraged by the need to maintain confidence in the exchange rate peg. These economies enjoyed rapid growth and low inflation up to around 2004. Fixed exchange rates encouraged widespread borrowing in foreign currencies, however, at low foreign interest rates in the belief that exchange rate risk was negligible. From then on, a tightening labour market and an increasing tendency for capital flows to fund property lending led to significant overheating pressures, most notably in the Baltic States, and these economies subsequently endured painful recessions.

Two countries have moved from fixed to floating regimes, namely Romania in 2005 and Hungary in 2008. Their fiscal performances under fixed exchange rates were not as strong as for the other fixed exchange rate economies, illustrating that the incentive of maintaining the exchange rate peg is not always sufficient. Inflation remained relatively high while fixed exchange rates also encouraged foreign currency borrowing. When exchange rates became more flexible, there were signs that imbalances were improving but not to a sufficient extent by the time the financial crisis struck. Their recessions have also been severe.

The Czech Republic and Poland have employed floating exchange rate regimes. Fiscal discipline has not been as strong as in some of the fixed exchange rate economies. On the other hand, the exchange rates have borne a significant portion of economic adjustment, with appreciation stemming inflationary pressures during good times and depreciation providing stimulus when the economies slow. The economic cycle has not been quite as pronounced in these two economies and their recessions have been relatively mild.

The choice of exchange rate regime impacts on country plans for joining the euro area. The Baltic States are all members of ERM and aim to join the euro area as soon as possible. Estonia was deemed to have met the criteria by EU Heads of State in June and will join the euro area on 1 January 2011. Bulgaria also aims to join the euro area relatively quickly. The other countries plan to join at somewhat later dates with the Czech Republic and Poland in particular seeing euro adoption as a longer term target.

Four countries have joined the euro in recent years. Slovenia joined in 2007 having followed an exchange rate policy of very gradual depreciation. Cyprus and Malta joined in 2008, having followed long-standing fixed exchange pegged regimes to the euro. Slovakia joined in 2009, having followed a policy of gradual appreciation and in fact revalued its exchange rate bands upwards on two occasions in ERM.

As noted above, Estonia will join the euro area on 1 January 2011[1], having met the Maastricht criteria on the strength of fiscal austerity measures amounting to almost 10 per cent of GDP in 2009 (for comparison, Ireland's budget, containing notable cuts to public sector pay and social welfare, amounted to 2.5 per cent of GDP in 2010). This illustrates a very high degree of economic flexibility to cope with any economic divergence between Estonia and the rest of the euro area. The ECB expressed some concern on inflation sustainability and the recent inflation performance has been volatile. Nevertheless, EU Heads of State, taking the European Commission and ECB Convergence Reports into account, approved Estonia's membership in June.

Three advanced EU economies are outside the euro area reflecting public opinion. Sweden and Denmark have rejected euro area membership in referenda in the past. Public opinion in these countries has been in favour most, but not all, of the time since the referenda but not by a wide margin. Sweden is assessed in the same manner as the other

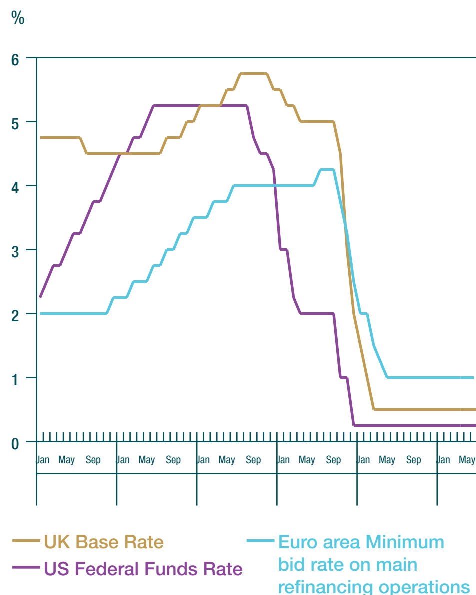
[1] Estonia's accession will increase the number of National Central Bank Governors on the ECB Governing Council, the main decision making body, to 17. When this number reaches 19, Governors will begin a rotation system of voting where frequency depends on the weight of the economy represented by each Governor.

countries and, though not in ERM, maintains a close exchange rate relationship with the euro. Denmark is in ERM though it is not assessed for membership, as it is not obliged to join. UK public opinion consistently shows a substantial majority against euro area membership. There is no exchange rate policy vis-a-vis the euro. In practice, sterling tended to move increasingly in tandem with the euro leading up to the financial crisis but has subsequently diverged once again.

EU candidate countries could conceivably join the euro area in the coming years, namely Croatia, FYR Macedonia, Iceland and Turkey, though these countries are progressing through the EU accession process at varying speeds. Potential EU candidate countries could conceivably join in the longer term, namely Albania, Bosnia and Herzegovina, Montenegro and Serbia.

As the euro area expands, it is likely to evolve into the world's largest economy. The US economy is currently larger, comprising approximately 20 per cent of the world economy compared to around 15 per cent for the euro area. As an indicator of potential, however, the EU share was close to 21 per cent though this declines to just over 18 per cent when the UK is excluded. The EU is likely to expand at a faster pace, as emerging economies evolve into advanced economies and more countries join. In population terms, the euro area, at 329 million, is slightly higher than the US, at 308 million, but the EU population is already much larger, at 500 million.

Chart 8: Key Policy Interest Rates



Source: Reuters EcoWin

United States

The latest figures[2] from the Bureau of Economic Analysis (BEA) indicate that economic activity in the US continued to expand in the first quarter of 2010, albeit at a slower pace than in the final months of the previous year. Real GDP increased by an annualised rate of 2.7 per cent, reflecting positive contributions from personal consumption expenditure (PCE), inventories and exports, contributions which were partly offset by decreases in government spending and residential fixed investment and growth in imports (see Table 3). Growth in private consumption accelerated, increasing by 3 per cent and contributing 2.1 per cent to overall GDP growth. The contribution of inventories, meanwhile, was somewhat weaker than in the preceding quarter, although it still accounted for a significant proportion of growth.

The latest economic data remain broadly positive and suggest continued robust growth in the first half of 2010. However, recent data on housing and employment provide tentative evidence that these markets have been negatively affected by the phasing out of certain temporary measures. New home sales, for example, declined by 33 per cent in May from the preceding month and the supply of homes on the market increased following the expiration of the initial deadline on the first time buyer tax credit. To qualify for the tax credit, buyers were required to sign a sales contract by 30 April and close on that sale by 30 June[3] Non-farm payrolls, meanwhile, declined for the

[2] Released on June 25.

[3] Congress subsequently extended the closing date until 30 September, to provide buyers who had binding sales contracts in place by April 30, 2010 additional time to complete their purchases. This extension will not impact new home sales, however.

Table 3: Contributions of expenditure components to percent change in real US GDP

	2009			2010
	Q2	**Q3**	**Q4**	**Q1**
Private Consumption	–0.6	2.0	1.2	2.1
Government Consumption	1.3	0.6	–0.3	–0.4
Fixed Investment	–1.7	–0.2	0.6	–0.1
Inventories	–1.4	–0.7	3.8	1.9
Exports	–0.5	1.8	2.4	1.3
Imports	2.1	–2.6	–2.1	–2.1
Real GDP	**–0.7**	**2.2**	**5.6**	**2.7**

Source: BEA

first time this year in June reflecting a significant decrease in the number of temporary workers employed for the Census. The hiring of these temporary workers has created significant volatility in the non-farm payroll figures in recent months, adding 411,000 to the figures in May and subtracting 225,000 in June. Employment in the private sector picked up modestly over this period, growing by 116,000. Overall, the seasonally adjusted unemployment rate declined slightly in the second quarter of 2010, but remains historically high at 9.5 per cent. Weak employment growth combined with a decline in housing wealth will weigh on consumer confidence and spending at a time when the US economy is becoming increasingly reliant on private consumption for growth. In their June statement, released prior to the negative housing and employment data, the Federal Reserve's Open Market Committee (FOMC) noted that 'households spending is increasing but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit'. The FOMC anticipates that the pace of US economic recovery is likely to be moderate for a time. Nevertheless, the IMF anticipates real GDP growth of 3.3 per cent in 2010 and 2.9 per cent in 2011. Both these figures represent an upward revision from their previous forecasts, but the IMF sets them against a backdrop of increased downside risks.

The FOMC kept interest rates unchanged at the historically low range of zero to 0.25 per cent at its March and June meetings. There are still no signs of inflation pressures emerging; the annual change in the Federal Reserve's preferred gauge of inflation — the core PCE deflator — is subdued at 1.3 per cent in May. The FOMC noted that 'economic conditions, including the low rates of resource utilisation, and stable inflation expectations are likely to warrant exceptionally low levels of federal funds rate for an extended period'. In response to the re-emergence of strains in short term funding markets in Europe, the FOMC re-established temporary US dollar swap facilities with certain foreign central banks[4] at an unscheduled meeting in May. The facilities are authorised until January 2011.

United Kingdom

Having exited recession in the preceding quarter, the UK economy continued to expand in the first three months of 2010 when real GDP increased by 0.3 per cent (quarter-on-quarter). Private consumption declined and exports fell sharply in the first quarter, but these developments were more than compensated for by strong growth in investment and government expenditure. More recently, the latest soft data are consistent with positive output growth in both the manufacturing and services sectors in the second quarter, when the National Institute of Economic and Social Research (NIESR) estimates that GDP expanded by 0.7 per cent. NIESR estimate that the pace of expansion moderated over the course of the quarter, however. Furthermore, it has identified a number of potential downside risks to growth in the coming months; firstly, that the euro area might be adversely affected by spillovers of the sovereign debt crisis; secondly, the UK's loss of competitiveness against the euro area due to the appreciation of sterling; and finally, the risk of renewed weakness to personal consumption owing to the significant fiscal consolidation measures.

[4] The Bank of Canada, the Bank of England, the European Central Bank (ECB), the Swiss National Bank, and the Bank of Japan.

On 22 June, the UK Government announced additional consolidation measures in its Emergency Budget. The measures include further spending cuts and net tax increases which will grow over the projection period; by 2014-15 they are forecast to account for £40 billion of additional consolidation, bringing total consolidation for that fiscal year to £113 billion. The spending cuts include a two-year pay freeze for public sector workers, a reduction in tax credits, a freeze in child benefit and the indexation of benefits, tax credits and public pensions in line with the Consumer Price Index, as opposed to the Retail Price Index. The Government also announced that there will be a spending review on 20 October and that most Departments face a potential average cut of 25 per cent. The Office of Budget Responsibility (OBR) estimates that the level of general government employment will be approximately 11 per cent lower five years from now. Key tax changes to be implemented from early 2011 include an increase in VAT from 17.5 per cent to 20 per cent, a 1 percentage point cut in the corporate tax rate each year until 2014-15 — bringing the rate down to 24 per cent — and a bank levy. Reflecting the impact of the additional consolidation measures, the OBR revised downwards its growth projections, from 1.3 per cent to 1.2 per cent for 2010 and from 2.6 per cent to 2.3 per cent for 2011. The IMF also revised its growth forecasts downwards from 1.3 per cent to 1.2 per cent for 2010 and from 2.5 per cent to 2.1 per cent for 2011

As inflation remained over one percentage point above its target rate of 2 per cent, the Governor of the Bank of England (BoE) was required to send another open letter to the Chancellor in May. In both the letter to the Chancellor and May's Inflation Report, the BoE attributed the high inflation rate to temporary factors including the restoration of the VAT rate to 17.5 per cent, the increase in oil prices over the past year and continuing pass-through from the exchange rate deprecation in 2007-2008. In its latest Inflation Report, the BoE notes that inflation is likely to remain above target for the rest of this year. As the temporary factors wane, the BoE anticipates that the persistent margin of spare capacity in the UK economy will push inflation below target for most of 2011 to 2013. However, the pace and extent of inflation moderation are considered highly uncertain. At its latest meeting in July, the Bank of England's MPC maintained the official bank rate at 0.5 per cent and the size of the asset purchase programme at £200 billion.

Japan

According to the second preliminary estimates by Japan's Cabinet Office, real GDP grew by 1.2 per cent year-on-year in the first quarter of 2010, unchanged from the first estimate. A moderate recovery has been driven by a large fiscal stimulus and a sustained improvement in trade, the latter supported by the strong recovery in Asian economies, particularly China. Net exports, the main driver of growth in the first quarter, accounted for 0.7 percentage points of growth while private demand, supported by the fiscal stimulus, contributed 0.5 percentage points.

Overall economic conditions have continued to improve in the second quarter. The June 2010 Tankan survey of business sentiment points to solid developments in the months ahead, with sentiment among Japanese manufacturers reaching a two year high. However, domestic demand is likely to be dampened by continued unemployment worries, a dip in wages and continued deflation. Furthermore, the strong growth in exports has slowed in recent months, as the global demand for re-stocking dissipates and the Chinese recovery moderates. The value of exports in May rose 32.1 per cent from a year ago, moderating from the 40.4 per cent rise registered in April. The IMF has projected real growth of 2.4 per cent year-on-year in 2010, an upward revision of 0.5 percentage points, reflecting stronger than expected first quarter exports. Growth is then expected to moderate to 1.8 per cent in 2011, as the fiscal stimulus tapers off.

With respect to price developments, deflation has been easing recently. However, Japan's Consumer Price Index (CPI) remains negative due to spare capacity in the economy, with the annual CPI excluding fresh food declining by 1.2 per cent in May. Against the backdrop of continued deflation, the Bank of Japan left its

main policy rate unchanged at 0.1 per cent at its June meeting while describing the need to 'maintain an extremely accommodative financial environment'.

Emerging Asia

Emerging Asia continues to lead the global recovery from the financial crisis, with GDP growth accelerating in the first quarter of 2010. Economic activity has been supported by buoyant exports and strengthening external and private domestic demand. Although some tightening has started to take place, for the most part expansionary monetary policy and fiscal stimulus have helped to sustain the acceleration in growth rates across countries.

In China, real GDP expanded by 10.3 per cent year-on-year in the second quarter of 2010, down from robust first quarter growth of 11.9 per cent. Meanwhile, 2009 growth has been revised upwards to 9.1 per cent from 8.7 per cent. Based on IMF forecasts, growth is expected to reach 10.5 per cent in 2010 before slowing to 9.5 per cent in 2011 when further measures to slow credit growth are expected.

Despite exports increasing sharply, growth has become more balanced in China with private domestic demand (investment and consumption) accounting for an increasing share of GDP. China's trade surplus has been on a downward trend since the start of 2010 due in part to a combination of strong demand for imports and rising import prices, although the trade surplus widened again in June due to stronger-than-expected export growth. With regard to overheating concerns, early indications suggest that the various tightening measures taken to dampen the property sector may be having an effect, given the recent decline in property sales. Nevertheless, inflation remains a concern in China. China's CPI increased by 2.8 per cent year-on-year in June, down from a 19-month high of 3.1 per cent in May. A transition to a more neutral monetary policy stance has been helped by the People's Bank of China (PoBC) announcement that it will effectively abandon the de-facto peg to the dollar that had been in place for the previous 23 months. While the PoBC ruled out a major one-off revaluation, it appears they are allowing a very modest and gradual appreciation, while maintaining the 0.5 per cent daily trading band.

Meanwhile, the Indian economy recorded real GDP growth of 8.6 per cent year-on-year in the first quarter of 2010, following growth of 6.5 per cent in the final months of 2009. For 2010 as a whole the IMF has forecast an expansion of 9.4 per cent, with growth of 8.4 per cent expected next year. This compares to an increase of just 5.7 per cent in 2009. India's wholesale price index increased by 10.6 per cent year-on-year in June 2010, following a revised 11.2 per cent increase in May, a 19-month high. In response to double digit inflation, the Reserve Bank of India in a July inter-policy meeting, raised the repurchase rate by 25 basis points to 5.5 per cent and the reverse repurchase rate by 25 basis points to 4.0 per cent, the third rate hike in 2010.

The articles in this section are in the series of signed articles on monetary and general economic topics introduced in the autumn 1969 issue of the Bank's Bulletin. Any views expressed in these articles are not necessarily those held by the Bank and are the personal responsibility of the author.

The Impact of Oil Prices on Irish Inflation

by Derry O'Brien and Laura Weymes*

Abstract

Oil prices have been characterised by large fluctuations in recent years. Strong volatility in oil prices has important implications for the Irish economy as Ireland has a relatively poor fuel endowment and relies heavily on imported oil. Energy price increases have been one of the principal drivers behind HICP inflation rates in Ireland in recent years. This article highlights the distinctive features of the Irish energy market which render the impact of oil price changes on Irish inflation different to the average impact felt at the euro area level. The direct effects on inflation are stronger in Ireland than in the euro area, reflecting the higher dependence on both oil and gas. The pass-through of higher oil prices to petrol and diesel prices at the pumps is slower than the euro area average but there is no evidence of pricing asymmetries. Indirect effects appear to be of a similar order of magnitude to the euro area average. Given the Irish economy's relatively high wage flexibility, and in particular the low incidence of automatic wage indexation, it is likely that second-round effects in Ireland are more contained than in the euro area. Irish pre-tax diesel and petrol prices are roughly comparable to euro area levels reflective of improved competition, whereas heating fuel is considerably more expensive. Pre-tax electricity and gas prices remain significantly above the euro area average and further steps are needed on the path to full liberalisation of the retail electricity and gas markets. Measures to reduce oil and gas dependency by, for example, greater recourse to renewable energy resources, will help mitigate the impact that oil price fluctuations have on Irish inflation.

* The authors would like to thank John Flynn and Maurice McGuire (Central Bank), Aidan Meyler (ECB), Laura Malaguzzi Valeri (ESRI) and Martin Howley (SEAI) for helpful comments.

1. Introduction

Oil prices have been characterised by strong volatility in recent years. Having fluctuated around US$20 a barrel for much of the 1990s, oil prices have risen sharply since 1999, peaking at US$150 a barrel in mid-2008, before dipping below US$30 by end-2008. In the first quarter of 2010, oil prices averaged US$77 per barrel, representing an almost 71 per cent rise in nominal terms relative to the same period of 2009[1]. By international standards, the Irish economy is highly dependent on imported oil and hence particularly affected by oil price fluctuations. The main impact of oil price changes emerges through disproportionately negative terms of trade effects, with higher import costs reducing purchasing power and in turn weighing on domestic demand. The terms of trade deterioration can also produce adverse competitiveness effects, particularly relative to those trading partners with less reliance on oil. Such sharp price fluctuations also present challenges for the accurate forecasting of inflation and, at the euro area level, can make the task of deciding an appropriate monetary policy response more difficult.

Oil prices affect the Irish economy through several interlinked transmission channels, with this multiplicity due to the fact that oil is used both as an input in the production process and as a final consumption good. This paper uses a stylised framework similar to that adopted by the ECB (2010) to explain the channels through which changes in oil prices impact on inflation in the Irish economy. The propagation mechanisms are dependent on a wide range of factors including energy dependency, energy intensity, energy mix, and the level of competition. Furthermore, the transmission channels are complex and evolve over time due to shifts in the structure of energy markets, labour markets and macroeconomic conditions more generally. ECB (2010) provides a comprehensive assessment of the importance of energy price movements for the economic performance of euro area economies. With the aid of the results from the latter paper, this article highlights and expands on the distinctive features of the Irish energy market which render the impact of oil price changes on Irish inflation different to the average impact felt at the euro area level. In this respect, it presents empirical results based on input-output tables and macro-econometric model simulations, which may be used as rules of thumb for how oil prices affect inflation in the Irish economy.

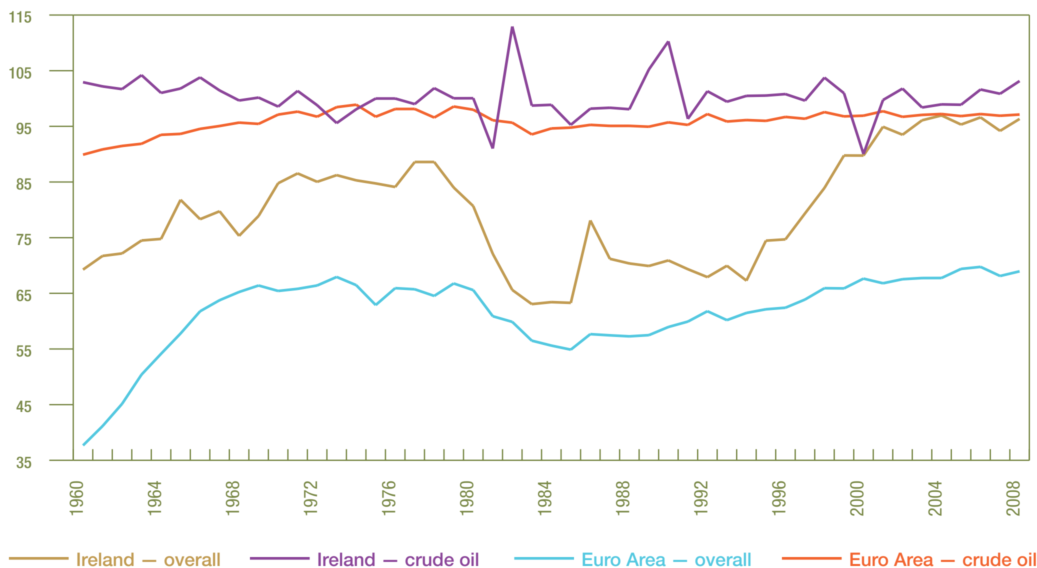
It is worth noting that in this article various energy market indicators are reported largely for 2007/2008 to allow comparison with euro area equivalent calculations compiled as part of ECB (2010). More updated energy information on 2009 Irish energy balances is available from SEAI. The article is structured as follows. Section 2 provides an update on the structure of Irish energy markets, with a particular focus on the importance of oil, and sets the stage for the subsequent analyses. Section 3 illustrates the main channels through which changes in oil prices impact on domestic inflation and provides empirical results using model simulations and input-output tables on the scale of direct, indirect and second-round effects. Euro area comparisons of the price levels of liquid fuels, gas and electricity are also provided. The final section then summarises the main findings.

2. Oil and The Irish Energy Market

The manner in which international oil price changes propagate through an economy depends partly on the structure of the economy's energy markets. The relative importance of international energy commodity prices can be seen by examining energy imported as a proportion of energy demanded. This is referred to as the energy dependency of an economy and Ireland's total energy dependency, at 96.3 per cent in 2008, is appreciably higher than the euro area average of 69.0 per cent (Chart 1). Oil dominates the energy landscape in Ireland in terms of consumption demand representing 64.8 per cent of total energy consumption in 2007, relative to a euro area average of 43.9 per cent. This to an extent reflects our relatively poor fossil fuel endowment and this leaves the Irish economy particularly exposed to the vicissitudes of international oil price movements. Moreover, as gas prices

[1] This article does not focus on the nature or persistence of energy price movements. An interesting overview of the evidence on the recent drivers of energy prices is provided in Box 1.1 of ECB (2010).

Chart 1: Energy Dependency (Net Imports as % Total Gross inland Consumption)



Source: ESCB staff and authors' calculations.
Note: The dependency ratio may exceed 100% when the energy stocks have been depleted. Gross inland consumption (GIC) is the total energy demand of a country or region. It covers consumption by the energy sector itself, distribution and transformation losses, final energy consumption by end users and statistical differences not already captured in primary energy consumption or final energy consumption figures. GIC does not include fuel oil provided to international maritime fuel bunkers.

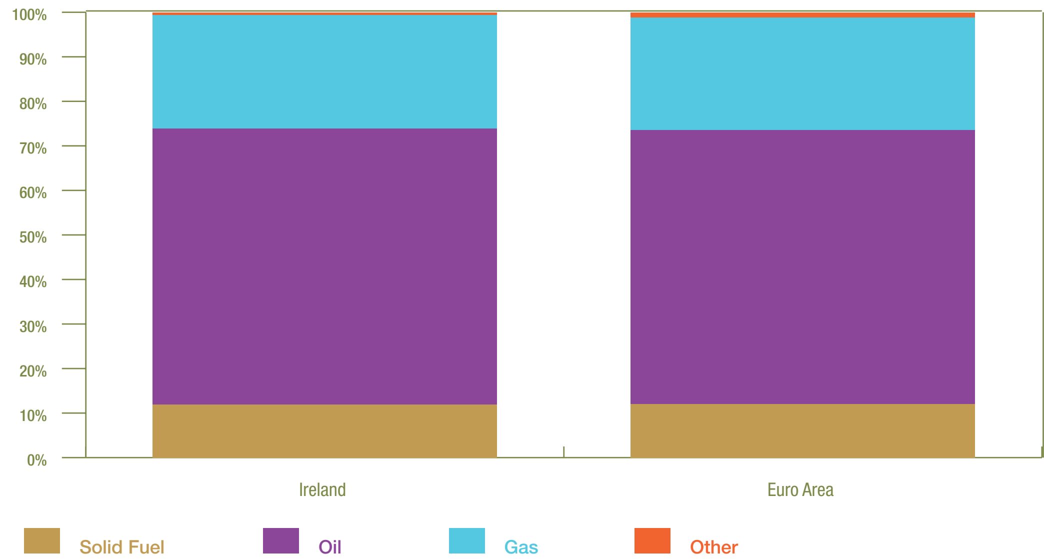
are strongly correlated with oil prices, albeit with a significant lag, the gas import dependence is also relevant in an assessment of the impact of oil price changes. In Ireland, oil and gas together dominate our energy import structure (Chart 2). This high oil and gas dependency is reflected in the high oil and gas inputs used in electricity generation (Chart 4). Furthermore, the price elasticity of oil demand is quite low due to the low substitutability of oil; the price elasticity for Ireland is estimated to be about –0.08 in the short term, rising to –0.20 in the long-term, and broadly similar to results for the UK (Cooper (2003)).

While overall energy dependency has tended to fluctuate within a relatively narrow band over time (at least relative to some main trading partners such as the UK and US), oil dependency in particular has always been high in Ireland (Chart 1). As oil dependency in Ireland is higher than the euro area average, a priori, the direct and possibly indirect effects of changes in international oil prices may be larger in Ireland, but other important factors such as energy intensities will also play a role (see Section 3). The significantly lower energy dependence of other euro area countries is reflective of stronger domestic primary production of energy.

The energy production sectors both in Ireland and in the euro area are undersized relative to their respective energy needs in terms of final consumption, with total primary production only covering 10.6 per cent of total final energy consumption in Ireland in 2007, relative to a euro area figure of 56.2 per cent. As can be observed in Chart 3, Ireland's production is heavily weighted in favour of solid fuels (e.g. peat) with the latter accounting for a significantly greater share of primary production than the euro area average[2]. Oil and gas only account for zero and 26.2 per cent, respectively. In terms of final energy production in Ireland, note that 61.8 per cent of electricity is generated from oil and gas (compared with 26.0% in the euro area). While nuclear fuels contribute over 50 per cent to electricity generation in a number of euro area

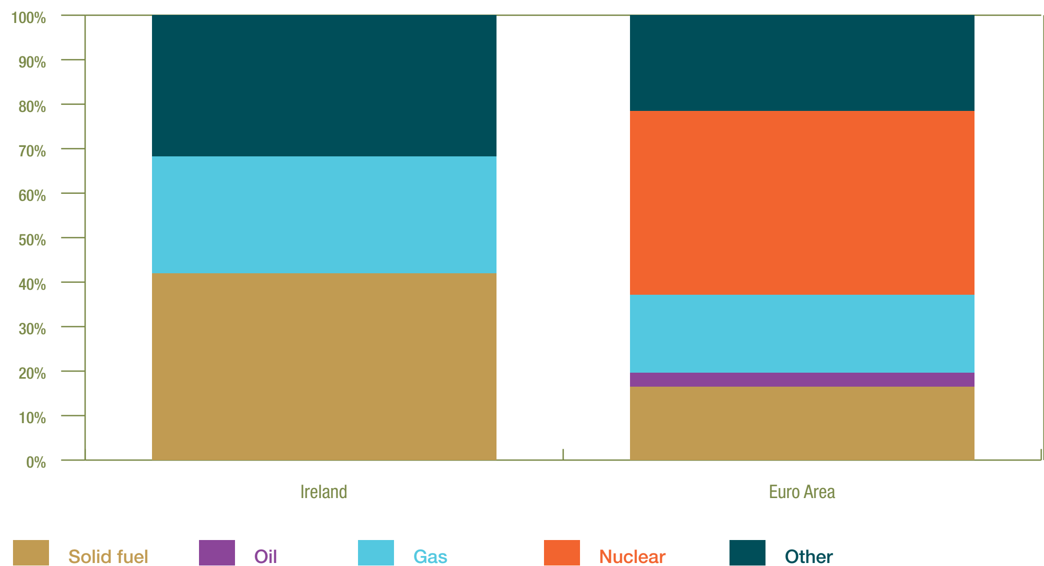
[2] Primary production of energy is the extraction of energy products in a useable form from natural sources either from exploitation (coal mines, crude oil fields, hydro power plants) or the fabrication of bio-fuels. It excludes any energy which is transformed from one form to another (electricity, heat generation, or coke production).

Chart 2: Import Structure of Energy Products, by Fuel Type, 2006



Source: Eurostat Energy & Transport in Figures (2009).
Note: 'Other' includes Renewables, Electricity and Derived Heat.

Chart 3: Primary Production of Energy, by Fuel type, 2007



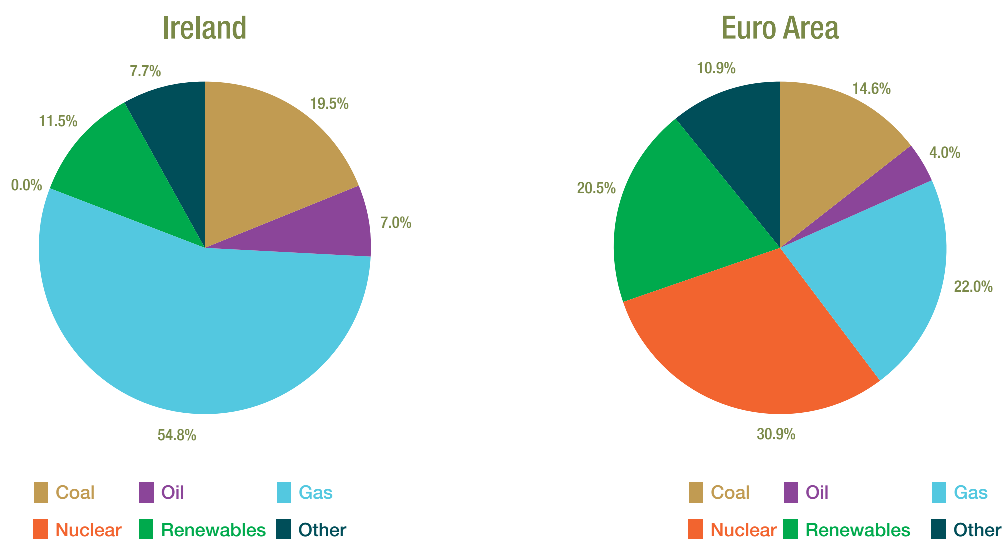
Source: ESCB staff and authors' calculations. The entirety of solid fuel production related to peat. 'Other' captures mainly renewables including of biomass, wind and hydro.

countries (such as Belgium, France and Slovakia), Ireland has no nuclear energy production. Overall, the greater reliance on oil and gas is reflected in the findings in Section 3, where the direct effect of an oil price rise on consumer price inflation is found to be greater in Ireland than in the euro area. Of note is that even if Ireland had greater primary production of oil and gas to reduce this import dependency, the prices of the domestically produced oil and gas would likely fluctuate in line with international prices so Irish firms and consumers would remain exposed to such price movements. Although gas accounts for a proportionately greater relative share of all primary energy produced in Ireland, the actual level of gas produced remains low. Looking ahead, the share of solid fuels in primary production is likely to fall for Ireland over the coming years, as the current peat electricity generation subsidy is gradually being phased out and is due to be eliminated by 2019. However, the growth in renewable generation, including the development of wind capacity on the system, (the Government's target is to have 40 per cent of electricity demand sourced from renewables by 2020) will likely help to compensate for the decline in solid fuels.

Turning to the components of final consumption demand, oil products are currently the most important component of final energy consumption in the Irish economy representing 64.8 per cent of final energy consumption, compared with an average of 43.9 per cent for the euro area. Electricity and gas products in Ireland account for a further 16.8 per cent and 11.9 per cent of final consumption demand. Oil and gas prices tend to exhibit strong co-movement and therefore, in the context of oil prices changes, corresponding changes in gas prices should also be taken into account. Oil and gas related products combined (both direct products and the portion of electricity generated from oil and gas[3]) therefore account for 87 per cent of final energy consumption in Ireland, relative to 72.8 per cent at the euro area level. Oil accounts for a greater portion of final consumption in both the household and industry sector in Ireland, than their respective counterparts in the euro area, leaving Ireland relatively more exposed to losses in competitiveness.

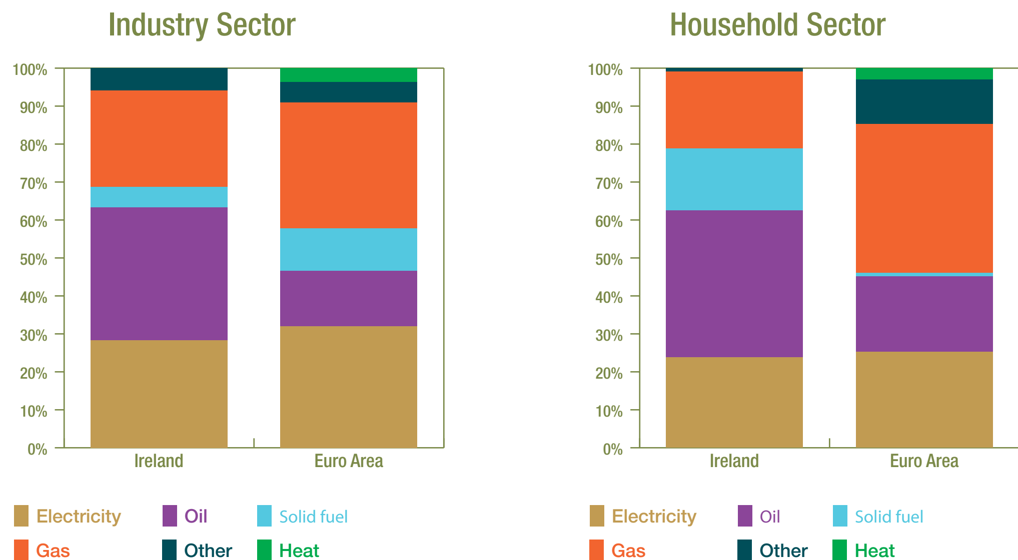
[3] Although oil accounted for roughly 7% of electricity generated in 2007, as oil fuelled plants are closing or have already done so, the remaining oil-use in electricity generation relates primarily to starting other fossil fuel plants. This would suggest that the current figure is somewhat lower. Gas-fuelled generation on the other hand is growing in importance.

Chart 4: Electricity Generation, by Fuel Type (%), 2007



Note: Updated Energy Balance figures from SEAI suggest that the portion of oil use in electricity generation in particular has fallen to 3.3% in 2009 reflecting the closure of oil fuelled plants.These are not produced here as comparable figures for the Euro Area are not available.
Source: ESCB staff calculations.

Chart 5: Final Consumption of Energy, by Fuel and Sector, 2007

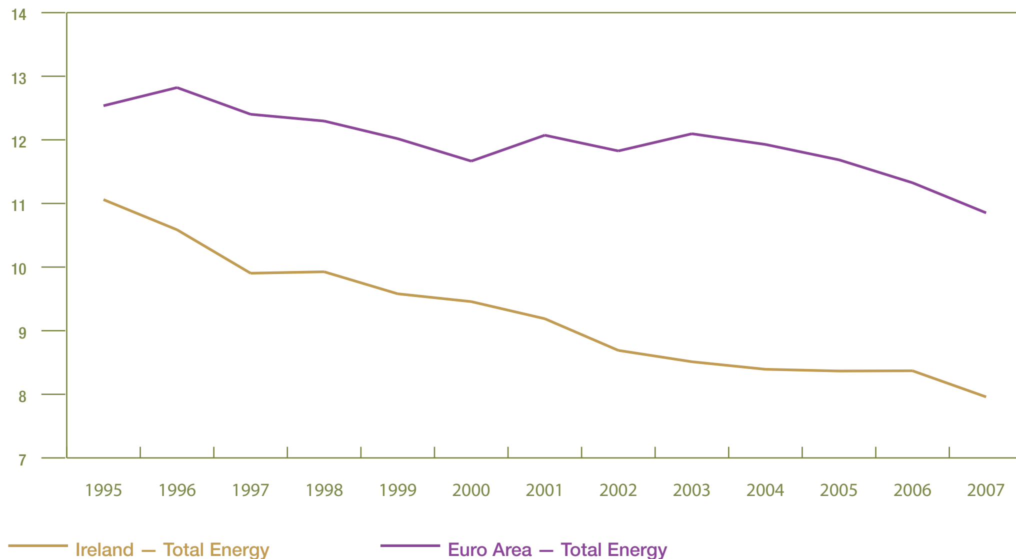


Source: ESCB staff and authors' calculations.

Energy intensity captures the link between energy consumption and economic activity, and can be used to proxy for the efficiency with which energy resources are used within the economy. Rather than efficiency, this is perhaps better described as energy productivity, since energy efficiency can be impacted by a range of factors such as structural change, activity, product mix and fuel mix. Whilst Ireland displays relatively high overall dependency, this exposure is partially offset by our relatively low and falling energy intensity. In fact, Ireland has witnessed sharper declines in energy intensity than any of our trading partners over recent years, improving our relative degree of insulation from energy price fluctuations. Energy saving techniques are often credited with having ushered in the general trend in declining energy intensities evident across the world in recent years. However, reductions in intensity can come about as a result of a shift in sectoral contributions to the economy and this was especially important in the case of Ireland. The services sector has advanced its share of Irish output considerably in recent years, and as this sector is relatively low in energy intensity, this structural shift has contributed to driving down Irish intensity ratings overall. There has also been a shift towards more high-tech manufacturing, which tends to be less energy intensive than traditional manufacturing.

Although Ireland has the lowest overall energy intensity of all euro area countries,contributions to Irish gross value added are unduely influenced by certain high-tech sectors, such as the broad chemicals sector, possibly leading to some distortions in economy-wide intensity levels. The energy intensity of the Irish chemicals sector is by far the lowest of the corresponding sectors across euro area countries and energy expenditure as a portion of total expenditure in the chemicals sector in Ireland is especially low. This may have implications for the subsequent analyses on indirect effects. The lower relative energy intensity may be expected, a priori, to contribute to lower indirect effects in Ireland than in the euro area. However, important low energy intensity services and high-tech sectors produce much of their output for export and therefore often do not make significant contributions to indirect effects on domestic inflation. While the potential inflationary effects arising from higher energy intensity exports may leak out of the economy, it is worth noting that the energy intensity of imports is both high and has been rising substantially, explaining in

Chart 6: Energy Intensity (Energy Consumption ToE 000s /GVA €m constant 2008 prices)



Source: Authors' calculations.
Note: ToE refers to Tonnes of Oil Equivalent and is used as a harmonised measure of energy volumes across different fuel types. GVA is Gross Value Added of the entire economy expressed in constant 2008 prices.

part the persistence of indirect effects. Finally, an important caveat is that energy intensity movements may often be related to non-energy related parameters such as infrastructure, population denstiy and the age of the housing stock.

The presence of greater market competition may help to insulate the economy somewhat against sharp energy price movements, since greater competition generally leads to higher productivity and, all other things equal, lower price levels[4]. Also, pricing asymmetries are less likely to exist. In common with other euro area markets, there is no evidence of pricing in asymmetries in the Irish petrol and diesel markets (Bermingham and O'Brien (2010) and Meyler (2010)). In this respect, for example, Ireland has a comparable level of petrol stations per capita at 251 stations per 100,000 persons in 2007 relative to a euro area equivalent of 256. Ultimately more detailed data at the local level would be necessary to definitively determine the degree of competition in this sector.

Given the importance of oil and gas in terms of Irish electricity generation, further falls in market concentration in the retail electricity market in particular could help to mitigate the impact of sharp oil price increases. At the wholesale level, Irish energy markets have a greater degree of competition relative to euro area average. Evidence of this greater degree of competition is captured by the Herfindahl Hirschman Indicator (HHI) of market concentration which corrects for relative firm size within the market. On a HHI-basis, Ireland outperforms the euro area average, suggesting a greater degree of competition in the wholesale gas and electricity markets. Turning to the retail market, the market concentration in the electricity market is comparbale to the euro area average but the gas market appears highly concentrated, reflecting the dominance of Bord Gais.

[4] Greater competition may lead to higher productivity and consequently, lower price levels. However, if competition is perfect, this would imply that all upstream cost increases are passed on in full.

Table 1: Energy Market Competition Indicators, 2007

Indicator		Electricity		Gas	
		Euro Area	Ireland	Euro Area	Ireland
HHI	Wholesale	4,062	1,526	4,076	1,780
	Retail	4,215	3,434	4,078	9,822

Source: CER for Ireland and ESCB staff calculations for Euro Area average. Irish gas market figures relate to 2006. Given that retail consumers now have a greater choice among providers, the HHI figures have likely fallen significantly since 2006.

Note: HHI refers to Herfindahl Hirschman Indicator and takes into account the relative size and distribution of the firms in a market. It is calculated as the sum of the squared market shares of each firm operating in a market segment; a value of 10,000= monopoly, greater than 5,000= highly concentrated, and below 5,000 = moderate to low concentration. The HHI for wholesale electricity fell from 1,526 in 2007 to 1,388 in 2009. Wholesale electricity market shares are based on generation (retail shares on consumption). In wholesale terms, this may overestimate the impact of new entrants to the market, which tend to serve less profitable larger users first, Although the Residual Supply Index (RSI) is arguably a better measure of market concentration in wholesale electricity markets in particular, the HHI is reported here to place Ireland in a euro area context.

3. Impact of Oil prices on Irish Inflation

Strong fluctuations in oil prices in recent years have impacted significantly on Irish inflation. In this section, the main channels through which oil price changes affect inflation are examined and empirical estimates of the impact of oil prices changes based a range of approaches are presented.

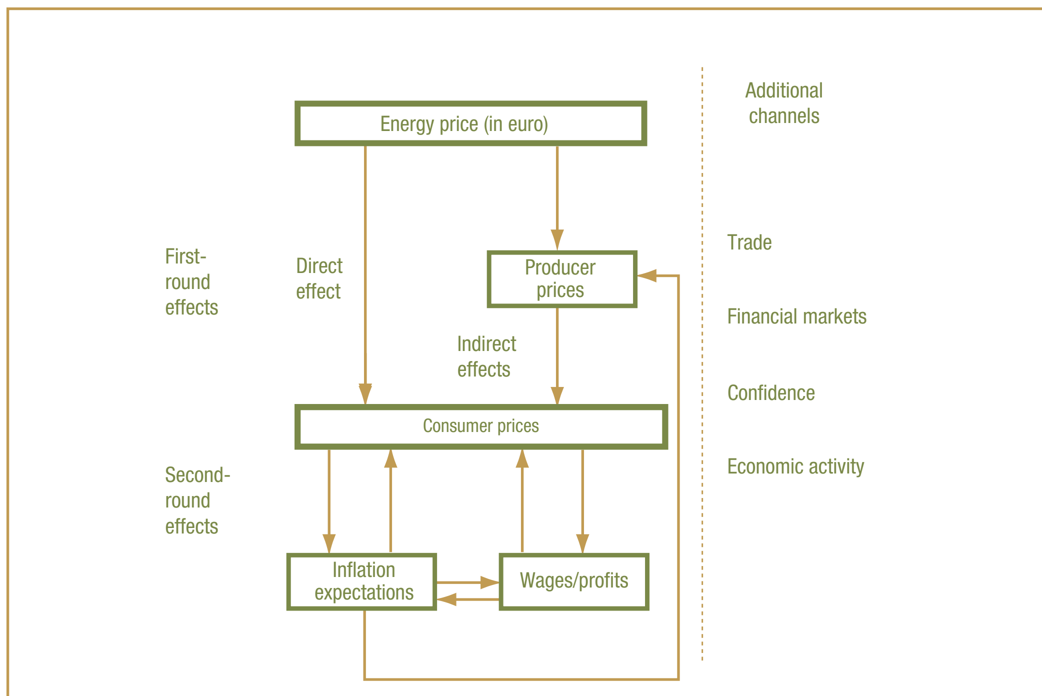
4.1 Transmission channels to inflation

A stylised framework of energy price pass-through channels is presented in Chart 7. It is worth noting that oil is priced in US dollars in international markets and so favourable euro/dollar exchange rates movements may mitigate the impact of higher prices for oil in dollars. Ultimately, it is the price of oil in euro that is relevant in terms of impact on domestic consumer prices. The price impact of oil price changes can be categorised as first- or second-round effects:

- According to our framework, first-round effects only give rise to a one-off increase in the price level and do not have lasting inflationary effects. First-round effects can be broken down into direct effects and indirect effects:
  - Direct effects: Capture the impact on energy items contained in the index of consumer prices such as petrol and diesel prices. The impact on these consumer prices is fast and normally fully passed-through within one quarter in the euro area. Note that higher oil prices tend to be followed by higher gas prices, albeit with a significant lag, and the impact of higher gas prices is sometimes also taken into account (and have been included here);
  - Indirect effects: Capture the impact on consumer prices via production costs. Higher oil prices may raise the cost production of goods, particularly for energy-intensive processes in certain sectors. Higher oil prices may also apply significant upward pressure on the costs of transport services, especially for air fares which have a large oil input. Finally, higher oil prices may be gradually passed through to the prices of consumer goods more generally via higher distribution costs.
- Second-round effects are of particular interest to central banks. When second-round effects are present, higher oil prices not only increase the price level but may also lead to more persistent effects on inflation[5]:
  - Higher consumer prices arising from first-round effects, although temporary by nature, may simply raise inflationary expectations and apply upward pressure on consumer prices generally;

[5] This terminology is not uniform in the literature and indirect effects are sometimes included as second-round effects. Indirect effects and second-round effects can be difficult to disentangle empirically.

Chart 7: Energy Price Pass-through Channels



Source: ECB (2004).

— Second-round effects may also emerge in the wage bargaining process. Employees may push for higher nominal wages to compensate for higher consumer prices weighing on their purchasing power. Firms may pass on the higher labour costs to consumers in order to maintain profit margins. Higher consumer prices may in turn lead to demands for higher nominal wages, possibly beginning an inflationary spiral.

The extent of second-round effects in the Irish economy will depend to an extent on the prevailing macroeconomic conditions but also on structural factors. A greater level of competition in product markets and labour market flexibility may help to contain inflationary pressures, as an appropriate wage reaction, where the impact of the oil price increase on real incomes is accepted, will minimise the risk of an inflationary spiral. With a credible monetary policy aimed at maintaining price stability over the medium-term, the reduction in real incomes is more likely to be accepted and inflation expectations are less likely to be affected by a temporary increase in inflation. There are additional channels, such as the impact on consumer confidence, but these are not the focus of this article and are difficult to quantify in any case.

4.2 Energy prices and Irish Inflation

Energy price increases directly contributed about one quarter of the 11.3 per cent cumulative increase in the Irish HICP price level between 2004 and 2008 (see Table 2). The petrol and diesel component accounts for close to a half of the energy component of the HICP and was among the largest contributors and most volatile components in HICP annual inflation over recent years. Despite a modest weight, home heating oil prices were especially volatile and as a result made a significant contribution to HICP annual inflation[6]. Although there were significant changes in electricity and gas prices arising from large oil price changes, their contributions to annual headline inflation were comparatively muted, particularly over the past two years. Note that some of the changes in prices were due to tax changes, including the recent introduction of carbon taxes, and also that changes in the VAT component may arise from changes in excise duties and/ or carbon taxes.

[6] In Ireland, excise duties form a relatively small proportion of the price of home heating oil. As a result, the volatility in oil prices is reflected to a greater extent in home heating oil prices.

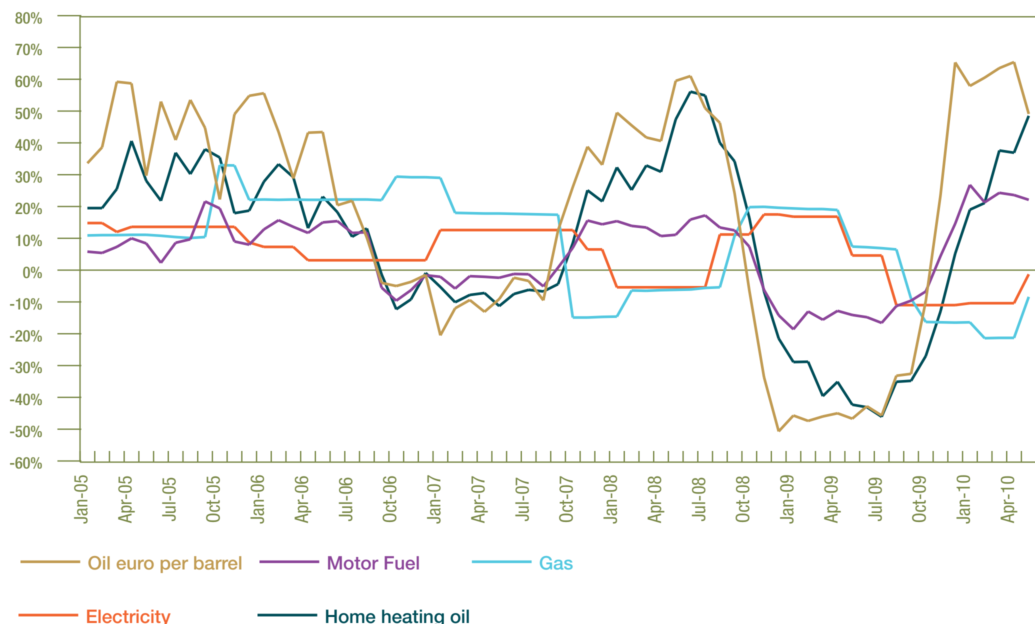
Table 2: Contributions of Energy Inflation to Irish HICP Annual Inflation, 2005-2010

	HICP Weight (%) Dec 2006	2005	2006	2007	2008	2009	2010(f)
HICP Inflation	100	2.2%	2.7%	2.8%	3.1%	–1.7%	–1.3%
Energy	8.7	1.0%	0.7%	0.4%	0.8%	–0.8%	1.1%
Petrol and Diesel	4.2	0.4%	0.3%	0.1%	0.4%	–0.5%	0.9%
Home Heating Oil	1.0	0.2%	0.1%	0.0%	0.3%	–0.4%	0.3%
Gas	1.0	0.1%	0.2%	0.1%	0.0%	0.0%	–0.1%
Electricity	1.7	0.2%	0.1%	0.2%	0.0%	0.0%	–0.1%
Miscellaneous Fossil Fuels	0.8	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%

Source: Authors' calculations based on CSO data.

The most evident and immediate impact of changing oil prices is on prices at the petrol and diesel pumps. The rates of pass-through between refined oil prices and pre-tax prices for petrol and diesel were assessed by modelling data in levels as the pass-through is a function of price level. In the euro area, the direct pass-through of oil prices to pre-tax prices of petrol, diesel and home heating oil is generally complete, quick and there is little evidence of asymmetry. The findings on pass-through rates to home heating oil are broadly similar. In Ireland, the pass-through to petrol and diesel prices appears to be slower but there is no evidence of economically meaningful pricing asymmetries (Bermingham and O'Brien (2010)). In contrast to liquid fuels, electricity and gas prices are generally less volatile and do not change nearly as frequently. In Ireland, price changes for gas and electricity are subject to regulatory approval and normally only change twice per year at most. The direct pass-through of gas price changes to consumer prices in the euro area is approximately 6 to 9 months while, for electricity prices, a reliable empirical estimate of the pass-through is more elusive. Preliminary estimates on the direct effects of a 10 per cent increase in oil prices are provided below and are based on an assumption of full pass-through to consumer prices. As gas prices are strongly correlated with oil prices, albeit with a lag, the combined impact of a 10 per cent rise in both oil and gas prices is also examined. Also, about 61.8 per cent of electricity is generated from oil and gas so the potential impact on electricity prices is also examined. The direct effects are computed mechanically using HICP weights and simple assumptions on the pass-through from increases in (i) oil prices; (ii) oil and gas prices; and (iii) prices for oil, gas and

Chart 8: Oil Prices & Irish HICP energy sub-components year-on-year changes (%)



Source: Authors' calculations based on CSO data.

Table 3: Estimated cumulative direct effect of 10 per cent increase in oil prices on Irish HICP annual inflation, per cent deviation from baseline

Energy sub-index	Year 1	Year 2
Liquid fuels only*	0.17	0.20
Liquid fuels and gas	0.19	0.26
Liquid fuels, gas and electricity**	0.23	0.37

*Liquid fuels comprise petrol, diesel and home heating oil;
**Electricity generated using oil and gas as input.

electricity generated using oil and gas. These calculations assume a full pass-through to liquid fuel prices during the first quarter of the first year and a full pass-through to gas prices and electricity prices during the third quarter of the first year (in practice, the Commission for Energy Regulation tends to decide twice per year on electricity and gas price changes, and the timing and scale of the pass-through of international oil price changes depends on a range of factors). As a result, the impact in the second year reflects some positive carryover.

4.3 Direct effects, indirect effects and second-round effects on Irish Inflation

Oil price changes can affect consumer prices often through complex channels that evolve over time, which makes the task of estimating the impact of oil prices changes quite challenging. One possible approach to estimating the direct, indirect and second-round effects of oil price changes uses traditional macroeconomic models. There are some strong limitations to model-based analyses of the impact of oil price changes including difficulties in accounting for supply-side effects, how to allow for structural changes such as the falling oil intensity of production, and how to take into account confidence and expectations effects. Differences in modelling strategies can also play a role in explaining cross-country differences. Bearing in mind these caveats, when both oil and gas prices are increased, the total impact on the HICP price level in Ireland is estimated to be about +0.25 percentage points over three years[7], which is significantly lower than the average total impact across the euro area (see Table 4). There are a number of reasons as to why the model may understate the indirect effect on consumer prices. Firstly, there is a significant degree of uncertainty surrounding the estimates and a number of strong assumptions have been made to try to capture more fully the various transmission channels of oil price changes. Secondly, in calculating the terms of trade effect, an assumption is made that the exports have the same energy content as domestically oriented products. However, as evidenced in this paper, the energy intensity of the exporting services sector and chemicals sector are quite low. Therefore, it is possible that the proportion of energy that is used as an input in the production of exports is overestimated and as a result the indirect effects may be understated to a significant degree. Thirdly, the prices of gas produced domestically, albeit produced in modest proportions in terms of overall gas consumption, remain static in the analysis but are likely to increase in line with international gas price movements. This may also boost the estimated total impact on inflation.

Indirect effects can be particularly difficult to disentangle empirically from second-round effects. For the euro area, the second-round effects are estimated to account for about half of the total effect on the euro area HICP excluding energy index via wage indexation or wage negotiations[8]. The role of second-round effects appears to be greater in countries with a lower degree of wage flexibility and particularly where wage indexation is more common. Given the Irish economy's relatively high wage flexibility, in particular the low incidence of automatic wage indexation, it is

[7] This is lower than the direct effect on consumer prices reported in Table 6, reflecting the fact that macro models are calibrated in logs rather than levels, and using data over a long time horizon. This suggests that the direct effect implicit in Table 4 is subject to slight downward bias.

[8] One way to isolate indirect effects would be to simulate the impact of a rise in oil prices on a HICP excluding energy variable (HICPX) and switch off the wage channel. However, the Bank's model does not contain a HICPX variable and in any case putting the entire burden of adjustment on employment would exert possibly excessive pressures on the stability properties of a model containing HICPX.

Table 4: Impact of 10 per cent increase in oil prices on consumer prices (annual averages, per cent deviation from baseline cumulated, wage reaction on)

	Year 1	Year 2	Year 3
Ireland (oil only)	0.09	0.20	0.22
Ireland (oil and gas)	0.10	0.22	0.25
Euro area (oil and gas)	0.24	0.39	0.45

likely that second-round effects are more modest than the euro area average. Also, strong pricing power on the part of firms can make the impact of transitory energy price increases on inflation more persistent. Finally, it is worth noting that possible non-linearities in the impact of oil prices are not captured by the model i.e. the model assumes the impact of an x per cent increase in oil prices has half the impact of an increase in oil prices of two times x. Also, level effects are likely to be important due largely to the varying proportion of taxes in the price level. In the model simulations, starting oil prices are assumed to be close to their current level.

The second approach used here to estimate direct and indirect effects is based on input-output tables, which can illustrate how oil price changes feed through sectors of the economy by way of consumption of intermediate inputs in the production chain. While an input-output analysis can help to separate out the direct effects and indirect effects, it is important to keep in mind that this approach also has limitations in that it is essentially a static analysis so there is no allowance for substitution effects. Moreover, the possibility of second-round effects are not taken into account as profit margins and wages are assumed to remain constant. According to an analysis of input-output tables relating to 2005 across 12 euro area countries, Ireland has the lowest total impact on producer prices, with a 10 per cent increase in oil prices giving rise to a 0.25 per cent increase in producer prices. This compares with a euro area average of 0.39 per cent and the total effect is generally evenly divided into direct and indirect effects across the euro area including in Ireland. The reasons why the impact is comparatively low for Ireland become apparent when the analysis is undertaken by branch of activity (see Table 5). Service sectors, such as financial services and computer services, have a relatively strong presence in the Irish economy and the impact of higher oil prices in these sectors is, unsurprisingly, quite limited. Also, the energy intensity in certain sectors of the Irish economy is relatively low. In particular, oil prices have a quite modest impact in the important chemicals sector as non-energy inputs such as royalties and licenses figure prominently. Thus, the low

Table 5: Impact of a 10 per cent increase in energy prices on producer prices by main branch of activity, per cent (2005)

Activity	Sub-branch	Ireland	Euro Area
Agriculture & Fishing		0.35	0.35
Manufacturing		0.11	0.29
Of which	Chemicals	0.03	0.70
	Base metals	2.59	0.59
Energy		4.75	4.88
Construction		0.23	0.20
Services		0.13	0.16
Trade		0.11	0.19
Transport		0.54	0.60
Of which	Land Services	0.60	0.64
	Water Services	0.44	0.63
	Air Services	1.06	1.53
Telecommunications		0.10	0.12
Other Services		0.10	0.10
Overall		0.25	0.39

Source: Eurosystem staff calculations based on IOT (2005).

Table 6: Direct and indirect impact of 10 per cent increase in energy prices on Irish and Euro area producer and consumer prices

	Producer Prices		Consumer Prices	
	Ireland	**Euro Area**	**Ireland**	**Euro Area**
Direct	0.13	0.20	0.30	0.22
Indirect	0.12	0.20	0.14	0.14
Total	0.25	0.39	0.44	0.36

Source: Eurosystem staff calculations based on IOT (2005).

overall impact in Ireland is due to a favourable production structure, which is oriented towards less energy intensive sectors.

The overall impact on the pre-tax consumer price level is computed by weighting the effects on disaggregate producer prices by the corresponding share in consumption. Table 6 presents the breakdown of the total impact on consumer prices where the direct effects represent the direct use of energy products while indirect effects cover the consumption of products that use energy as inputs. The direct impact of a 10 per cent increase in oil prices on consumer prices in Ireland of about 0.30 per cent is significantly higher than the euro area average of 0.22 per cent. This may reflect the greater oil dependency of the Irish economy. Note that these calculations also take into account the impact of higher gas prices, which tend to follow from increases in international oil prices. The indirect effects for Ireland are much the same as for the euro area, which suggests that the very low overall energy intensity of production in Ireland is heavily influenced by production destined for export and not domestic consumption (albeit with the offsetting impact of higher intensity imports). Finally, note that the analysis of input-output tables can give estimates of the magnitude of the impact but do not give an indication as to the rate of pass-through of oil price changes i.e. the likely timing of the impact on consumer prices via either direct or indirect effects cannot be determined.

4.4 Energy Price Level Comparisons

Diesel prices in Ireland were close to the euro area average on both a pre-tax and a post-tax basis in 2009. Whilst petrol prices were lower on a pre-tax basis, higher indirect taxes in the euro area drove more of a wedge between relative post tax prices. Also, it is worth noting that heating fuel is considerably more expensive in Ireland on both a pre- and post-tax basis, reflecting Irish-specific policy considerations whereby heating fuel is effectively subsidised for lower income earners through various fuel coupon initiatives often leaving the end-price paid by the consumer much lower.

Fuel price levels can vary across countries due to cost structures, energy policies and taxes. The upward price impetus which would otherwise be imparted as a result of our relatively limited refining capacity is mitigated by the high degree of cross-selling with other products, and relatively heavy supermarket competition (with the latter loss-leading on a 'known value item' such as petrol). Ireland displays a relatively high degree of cross-selling by European standards, which is reflected in relatively lower prices, corroborating the trend evident in other Euro Area countries. Variance in pricing structures is another feature of the Irish fuel market, with a recent National Consumer Agency (NCA) Report (2008) finding that prices for petrol and diesel could differ by up to 15 cents across service stations in Ireland. Margins also exert an impact on price levels, with the former linked to levels of competition, price regulation (both of which are relatively high in Ireland) and scale effects. Lower pre-tax petrol and diesel prices here reflect the fact that margins are relatively tight in Ireland.

Pre-tax electricity prices for households in Ireland are significantly above the euro area average while post-tax prices are slightly above the euro area average. Electricity prices for Irish residential customers have followed a very volatile trajectory, having started to fall in the second half of 2008, before rising sharply in the first half of 2009. In the second half of 2009, prices fell again quite markedly,

Table 7: Comparison of fuel consumer prices in 2009

		Ireland		Euro Area	
		Total	*Of which taxes*	**Total**	*Of which taxes*
Petrol	€/100 litres	110.7	*70.1*	119.8	*76.7*
Diesel	€/100 litres	102.1	*57.6*	100.5	*56.1*
Heating Fuel	€/100 litres	65.7	*13.4*	59.7	*18.1*
Electricity	€/100 KwH	18.6	*2.2*	17.3	*5.0*
Gas	€/Gjoule GCV	15.3	*1.82*	16.0	*4.2*

Source: European Commission, Eurosystem calculations and Sustainable Energy Ireland.

Note: Gas and electricity prices refer to domestic consumer prices for the 2nd semester of 2009 and are collected by Eurostat under the new methodology for the EU Gas and Electricity Price Transparency Directive (2008).

averaging declines of between 8 and 9 per cent between the first and second half of the year. Prices for average customers are now 7 per cent greater the European average[9]. The sharp falls experienced in Irish electricity prices in 2009 reflect both the base-effect of falling international prices, but also a temporary dampening effect owing to the rebate offered to large energy users by the Commission for Energy Regulation (CER) in order to mitigate the impact of high global fossil fuels[10].

Pre-tax gas prices for households in Ireland are slightly above the euro area average but post-tax prices are somewhat below the euro area average. Gas prices have fallen even more sharply than those of electricity, with the largest residential consumers experiencing the greatest reductions, where prices fell by 18 per cent in the second half of 2009[11]. Prices paid by smaller Irish customers are now 17 per cent below the European average. It is important to highlight that given the lag in gas prices behind those of electricity prices, once international electricity prices begin to creep back up, Irish gas prices may temporarily appear to have made more progress than is truly the case in terms of price convergence with average European prices, therefore recent price reductions should be interpreted judiciously. Arguably, for the purposes of competitiveness, cross country fuel price comparisons should be based on final prices paid by the consumer; the all tax inclusive price for households and the price exclusive of recoverable taxes (ex VAT) for businesses.

Aside from international price movements and the price impact arising from regulated rebates, electricity and gas prices are also influenced (inter alia) by cost considerations such as the degree to which investment in infrastructure assets are passed through to consumers. In 2009, the CER approved significant expenditures (€5.6 billion) relating to both the electricity transmission and distribution systems, which resulted in use of system charges which will bring about a likely annual price increase of almost 20 per cent in 2010. As mentioned in Section 2, Irish electricity is generated by a wide range of inputs with a particular fuel mix favouring oil and gas (together accounting for almost 62 per cent of electricity generated relative to a euro area average of 26 per cent). As Ireland is more reliant on fossil fuels, any increases in the cost of fossil fuels put Ireland at an increasing relative disadvantage. However, the offsetting impact of increased deregulation, together with innovative advances in electricity production (such as the new efficient gas fired ESB plant at Aghada) may help to mitigate this exposure. In addition, the Irish market is also becoming less concentrated; the entry of Bord Gais in to the electricity market and ongoing steps towards full liberalisation are likely to apply downward pressure on consumer prices over time[12].

[9] This captures those customers falling into residential bands DD and DC, who combined make up 88 per cent of the residential electricity market.

[10] This €315 million rebate will impact on 2009 and 2010 price levels, but is due to be phased out gradually by 2011.

[11] Reflecting the new EU harmonised methodological approach to collecting energy price data, large resident gas consumers are taken as those falling into band D3.

[12] Although further deregulation can help mitigate price increases, this is not always the case. Whilst it may reduce costs this does not guarantee prices will fall or that these reductions will be passed on to the consumer. Despite deregulation, consumer inertia may prevent the forcing down of prices.

5. Conclusions

Oil prices have been characterised by large fluctuations in recent years, rising annually in euro terms by 24 per cent in 2008 and falling by about 33 per cent in 2009. Strong volatility in oil prices has important implications for the Irish economy, as Ireland has a relatively poor fuel endowment and relies heavily on imported oil. Oil-related final products combined account for 81.7 per cent of final energy consumption in Ireland, which is significantly greater than the corresponding 72.8 per cent for the euro area average. While Ireland displays relatively high overall energy dependency, this exposure is partially offset by our relatively low and declining energy intensity. However, the low energy intensity in the Irish case may primarily reflect the importance of the less energy intensive services sector and high-technology manufacturing sectors. More traditional exporting sectors remain heavily exposed to sharp price movements in oil and gas as they are generally related to more energy intensive activities and also tend to be characterised by narrower margins.

Energy price increases were one of the principal drivers behind HICP inflation rates in Ireland in recent years, directly contributing about one quarter of the 11.3 per cent cumulative increase in the Irish HICP price level between 2004 and 2008. The impact of oil prices on domestic inflation was decomposed using a range of empirical approaches and the constituent effects can be summarised as follows:

- The direct effects on consumer price inflation are stronger in Ireland than in the euro area reflecting the higher dependence on oil and gas. The pass-through of higher oil prices to petrol and diesel prices at the pumps is slower than the euro area average but there is no evidence of pricing asymmetries;
- Indirect effects appear to be of a similar order of magnitude to the euro area average according to results from an analysis of input-output tables. Although Ireland has the lowest energy intensity in the euro area, a large proportion of less energy intensive production is destined for export and therefore would not materialise as indirect effects on domestic inflation. These results suggest that the energy efficiency in production for domestic consumption is more comparable to the euro area average;
- Second-round effects appear to have become less significant but are still estimated to account for about half of the total effect on core euro area inflation. Given the Irish economy's relatively high wage flexibility, and in particular the low incidence of automatic wage indexation, it is likely that second-round effects in Ireland are more modest than the euro area average.

Effective competition in the petrol and diesel markets has helped to keep pre-tax price levels comparable to those in the euro area. However, pre-tax electricity and gas prices remain significantly above the euro area average and further steps are needed on the road to full liberalisation of the retail electricity and gas markets. Greater energy efficiency and greater flexibility in wage and price setting needs to be promoted in order to, among other reasons, minimise the costs of energy price volatility. In this respect, the Irish labour market has exhibited a relatively large degree of flexibility, but it is imperative to sustain this flexibility in order to provide some insulation against further sharp energy price rises. A credible monetary policy is also important determinant of whether pressures from energy price rises translate into inflation over the medium-term.

Finally, it is worth noting that oil prices are already high by historical standards although the international recovery is not yet robust and there is significant upside risk that oil prices will re-emerge as a prominent driver of inflation when the recovery in developed economies gathers further momentum. This likelihood is heightened by the downscaling of investment during the crisis and the consequent tightening in energy supply. Measures to reduce oil dependency more generally can help to make the Irish economy more robust to international energy commodity price fluctuations while at the same time help address concerns relating to the environment impact of fossil fuel consumption and the security of energy supply.

Further development of renewable energy resources will go some way towards meeting both Government and EU targets and will also help to partially mitigate the impact that fluctuations in oil prices may have on inflation in the future.

References

Bermingham, C. and D. O'Brien, (2010) ''Testing for Pricing Asymmetry Behaviour in Irish and UK Petrol and Diesel Markets'', Central Bank Technical Paper RT/03.

Cooper, J.C. (2003) ''Elasticity of Demand for Crude Oil: Estimates for 23 countries 1979-2000'', OPEC working paper, March 2003.

ECB (2010), ''Energy Markets and the Euro Area Macroeconomy'', Task Force of the Monetary Policy Commitee of the ESCB, Occasional Paper No. 113.

Esteves, P. and P. Neves (2004), ''Oil Prices and the Economy'', Bank of Portugal, Economic Bulletin, December 2004.

Forfas (2006), ''A Baseline Assessment of Ireland's Oil Dependence''.

Howley, M., O'Gallachoir, B. and E. Dennehy (2009), ''Energy in Ireland 1990-2008'', Energy Policy Statistical Support Unit, Sustainable Energy Ireland.

Keeney, M. and M. Lawless (2010), ''Wage Setting and Wage Flexibility in Ireland: Results from Firm-level Study'', Central Bank of Ireland Research Technical Paper 1/RT/10.

McQuinn, K., N. O'Donnell and M. Ryan (2005), ''A Macroeconometric Model for Ireland'', Central Bank of Ireland Research Technical Paper 9/RT/05.

Meyler, A. (2010), ''The Pass-through of Oil Prices into Consumer Liquid Fuel Prices in an Environment of High and Volatile Oil Prices'', *Energy Economics*, forthcoming.

National Consumer Agency (2008), ''Investigation into Petrol and Diesel Price Movements''.

Van Robays, I. and G. Peersman (2009), ''Oil and the Euro Area Economy'', *Economic Policy*, Vol 24, No. 66.

List of Reporting Institutions 4

Section A: Main Monetary Indicators 7

A2.1 Domestic Credit to Irish Residents 9
A2.2 Private-Sector Credit to Irish Residents 10
A3 Irish Contribution to Euro Area Money Supply: 11
1. Components 11
2. Selected Measures of Irish Contribution 11

Section B: Interest Rates and Balance of Payments 13

B1 Official and Selected Interest Rates 15
B2.1 Retail Interest Rates and Volumes for Outstanding Amounts 16
B2.2 Retail Interest Rates and Volumes for New Business 17
B4.1 Harmonised Competitiveness Indicators for Ireland (HCIs) 18
B4.2 Harmonised Competitiveness Indicators for Ireland (HCIs) 19
B5 Indices of Relevant Wage Costs in Manufacturing Industry (formerly E2) 20

Section C: Banking and Other Financial Institutions 21

C2 Financial Statement of the Central Bank & Financial Services Authority of Ireland 22
C3 Credit Institutions: Aggregate Balance Sheet 24
C4 Credit Institutions: Retail Clearing: Aggregate Balance Sheet 27
C5 Credit Institutions: Non-Clearing with Predominantly Domestic Business: Aggregate Balance Sheet 30
C6 Credit Institutions: Non-Clearing with Predominantly Foreign Business: Aggregate Balance Sheet 33
C7 Credit Institutions: Mortgage Lenders: Aggregate Balance Sheet 36
C8 All Credit Institutions: Sectoral Distribution of Advances 40
C9 All Credit Institutions: Sectoral Distribution of Advances and Deposits 42
C10 All Credit Institutions: International Business: Analysis by Currency, Sector and Maturity 44
C11 All Credit Institutions: International Business: Analysis by Geographic Area 46
C13 Analysis of Residential Mortgages vis-à-vis Irish Residents 48
C14 Credit Card Statistics 50

Section D: Public Finances 53

D1 Government Debt and Government-Guaranteed Debt 55
D2 Government Stock — Nominal Holdings 56

Explanatory Notes 57

Notice

Publication of Tables A1, A4, B3, B5, B6, B7, C1, C12, D3–D8 and E1–E6 has been discontinued. These data are available from alternative sources, and readers are directed to these sources, which have been noted in previous bulletins. The CBFSAI Quarterly Bulletin and Monthly Statistics are also provided in electronic format on the website: www.centralbank.ie and the ECB Monthly Bulletin is available on the website: www.ecb.int.

The layout and design of many tables in Sections A, B and C were changed significantly at the start of EMU in January 1999 and users should exercise caution when comparing these series with earlier data as the underlying definitions may have changed. Detailed definitions of the concepts in each table can be found in the Explanatory Notes on pages 57 to 61.

Reporting Institutions

The following is a list of institutions currently submitting returns included under the headings in the Statistical Appendix.

Credit Institutions: Retail Clearing
AIB Mortgage Bank
Allied Irish Banks plc
Bank of Ireland Mortgage Bank
The Governor and Company of the Bank of Ireland
Danske Bank A/S
Ulster Bank Ireland Limited

Credit Institutions: Non-Clearing with Predominantly Domestic Business
ACC Bank plc
Anglo Irish Bank Corporation Limited
Anglo Irish Mortgage Bank
Bank of America National Association
Bank of Scotland (Ireland) Limited
BNP Paribas SA
Citibank International plc
DePfa Bank plc
EBS Building Society
EBS Mortgage Finance
FCE Bank plc
HFC Bank Limited
ICS Building Society
Investec Bank plc
Irish Life & Permanent plc
Irish Nationwide Building Society
KBC Bank Ireland plc
Marks & Spencer Financial Services plc
MBNA Europe Bank Limited
Nationwide Building Society
Northern Rock plc
Postbank Ireland Limited
The Royal Bank of Scotland N.V.

Credit Institutions: Non-Clearing with Predominantly Foreign Business
Aareal Bank AG
Bankinter S.A.
Bank of Montreal Ireland plc
Barclays Bank Ireland plc
Barclays Bank plc
BNP Paribas Securities Services SA
CACEIS Bank Luxembourg
Caja de Ahorros Y Monte de Piedad de Madrid
Citco Bank Nederland N.V.
Citibank Europe plc
Commerzbank Europe (Ireland)
DePfa ACS Bank
DePfa-Bank Europe plc
Deutsche Bank AG
Dexia Banque Belgique
Dexia Crédit Local
DZ-Bank Ireland plc
Dexia Municipal Agency
Elavon Financial Service Limited
Fortis Prime Fund Solutions Bank (Ireland) Limited
Goldman Sachs Bank (Europe) plc
Helaba Dublin Landesbank Hessen-Thuringen International
Hewlett-Packard International Bank plc
HSBC Bank plc
HSBC Private Bank (UK) Limited
Hypo Public Finance Bank
ING Bank N.V.
J.P. Morgan Bank Dublin plc
J.P. Morgan Bank (Ireland) plc
KBC Bank N.V. Dublin Branch
Landesbank Hessen-Thuringen Girozentrale

Credit Institutions: Non-Clearing with Predominantly Foreign Business (Continued)
Leeds Building Society
LGT Bank (Ireland) Limited
Merrill Lynch International Bank Limited
Naspa Dublin
Pfizer International Bank Europe
PNC International Bank Limited
Rabobank Ireland plc
Rabobank Nederland
RBC Dexia Investor Services Bank SA
Intesa Sanpaolo Bank Ireland plc
Scotiabank (Ireland) Limited
Société Générale SA
The Bank of New York Mellon (Ireland) Ltd
UBS (Luxembourg) SA
UniCredit Bank Ireland plc
Volkswagen Bank GmbH
Wells Fargo Bank International
EAA Covered Bond Bank plc
EEA Bank Ireland plc
WGZ-Bank Ireland plc
Zurich Bank

Credit Institutions: Mortgage Lenders
ACC Bank plc
AIB Mortgage Bank
Allied Irish Banks plc
Anglo Irish Mortgage Bank
Bank of Ireland Mortgage Bank
The Governor and Company of the Bank of Ireland
Bank of Scotland (Ireland) Limited
Danske Bank A/S
EBS Building Society
EBS Mortgage Finance
ICS Building Society
Irish Life & Permanent plc
Irish Nationwide Building Society
KBC Bank Ireland plc
Ulster Bank Ireland Limited

Post Office Savings Bank

Section A

Main Monetary Indicators

Table A2.1: Domestic Credit to Irish Residents

€ million	2010		
Return dates	31 Mar	30 Apr	31 May
1. Components			
Credit Institutions: Retail Clearing			
1. Loans to other residents (non-MFI, non-Government entities)	181,114	175,692	175,176
1.1 Euro	161,750	156,643	155,478
1.2 Non-euro	19,364	19,049	19,698
2. Holdings of securities, shares and other equity issued by other residents	18,867	22,978	22,408
2.1 Securities	17,809	21,919	21,498
2.1.1 Euro	17,716	21,832	21,404
2.1.2 Non-euro	93	87	94
2.2 Shares and other equity	1,059	1,059	909
2.2.1 Euro	993	993	843
2.2.2 Non-euro	66	66	66
3. General Government credit (central, regional and local)	4,727	4,852	6,047
3.1 Loans	404	382	1,426
3.1.1 Euro	404	382	1,426
3.1.2 Non-euro	—	—	—
3.2 Securities	4,322	4,470	4,621
3.2.1 Euro	4,322	4,470	4,621
3.2.2 Non-euro	—	—	—
4. Accrued interest receivable on credit to other residents	504	600	716
4.1 Euro	443	540	644
4.2 non-euro	61	60	72
Credit Institutions: Non-Clearing			
5. Loans to other residents (non-MFI, non-Government entities)	127,929	126,945	122,263
5.1 Euro	111,127	110,477	105,227
5.2 non-euro	16,801	16,468	17,035
6. Holdings of securities, shares and other equity issued by other residents	26,345	26,250	30,288
6.1 Securities	22,062	21,967	26,003
6.1.1 Euro	21,309	21,208	25,203
6.1.2 non-euro	754	759	800
6.2 Shares and other equity	4,283	4,283	4,285
6.2.1 Euro	4,147	4,146	4,145
6.2.2 non-euro	136	138	140
7. General Government credit (central, regional and local)	15,265	15,075	16,862
7.1 Loans	11,904	11,791	13,850
7.1.1 Euro	11,904	11,791	13,850
7.1.2 non-euro	—	—	—
7.2 Securities	3,361	3,284	3,012
7.2.1 Euro	3,361	3,284	3,012
7.2.2 Non-euro	—	—	—
8. Accrued interest receivable on credit to other residents	249	310	262
8.1 Euro	224	278	214
8.2 non-euro	25	32	48
Other			
9. Direct net external Government borrowing from 1 Jan. each year	—	—	—
10. Non-euro lending by credit institutions to non-MFI IFSC companies	19,433	19,154	20,193
11. Total lending by credit institutions to non-MFI IFSC companies	27,501	27,184	28,166

Table A2.2: Private-Sector Credit to Irish Residents

	Private sector credit (PSC)				Residential mortgage lending			
	Total	PSC Growth Rates		Non-Mortgage Credit				
	(1+2+4 +5+6+8)	Unadjusted year-to-year change	Adjusted year-to-year change[a]	Adjusted year-to-year change[a]	Outstanding level[b]	Unadjusted year-to-year change	Adjusted level[c]	Adjusted year-to-year change[c,d]
	€ million	%	%	%	€ million	%	€ million	%
2007								
October	366,705	18.7	18.5	23.4	121,872	10.8	137,125	15.1
November	372,703	18.1	17.1	21.6	123,407	10.0	138,457	14.2
December	376,796	18.6	17.0	20.6	123,002	11.2	139,842	13.4
2008								
January	378,202	17.7	16.6	20.2	123,981	10.6	140,666	12.9
February	379,072	16.2	15.6	18.9	124,888	10.0	141,378	12.3
March	384,340	17.1	17.1	20.8	124,385	10.7	142,403	11.6
April	386,342	16.4	15.9	19.3	125,348	10.2	143,417	11.4
May	390,325	15.7	15.1	18.3	126,597	9.7	144,456	10.9
June	392,937	14.6	14.3	20.2	120,569	4.2	145,341	10.2
July	395,857	13.9	13.2	18.8	121,442	3.3	146,304	9.6
August	399,473	13.6	12.8	18.6	122,125	2.5	146,813	9.0
September	399,143	10.8	10.5	15.4	123,045	2.1	147,550	8.5
October	401,244	9.4	8.9	13.4	123,240	1.1	147,574	7.6
November	403,945	8.4	9.1	17.7	115,944	–6.0	147,881	6.8
December	395,070	4.8	7.3	15.4	114,290	–7.1	148,115	5.9
2009								
January	398,069	5.3	6.6	14.6	114,772	–7.4	148,465	5.5
February	398,252	5.1	5.6	13.3	114,970	–7.9	148,523	5.1
March	392,258	2.1	2.4	8.5	113,637	–8.6	148,542	4.3
April	390,446	1.1	1.6	7.6	113,679	–9.3	148,429	3.5
May	388,859	–0.4	0.6	6.5	113,765	–10.1	148,411	2.7
June	387,350	–1.4	–0.8	1.7	113,860	–5.6	148,349	2.1
July	383,969	–3.0	–2.2	–0.2	113,744	–6.3	148,067	1.2
August	382,460	–4.3	–3.0	0.6	109,618	–10.2	147,983	0.8
September	378,086	–5.3	–3.4	0.4	109,764	–10.8	147,969	0.3
October	375,744	–6.4	–3.7	0.0	109,752	–10.9	147,807	0.2
November	373,108	–7.6	–5.4	–5.4	109,779	–5.3	147,673	–0.1
December	366,246	–7.3	–7.6	–9.3	109,886	–3.9	147,623	–0.3
2010								
January	363,872	–8.6	–8.6	–10.5	109,741	–4.4	147,356	–0.7
February	359,749	–9.7	–8.9	–10.9	109,671	–4.6	147,190	–0.9
March	355,008	–9.5	–9.3	–11.7	109,144	–4.0	146,473	–1.4
April	352,775	–9.6	–9.3	–11.4	108,177	–4.8	146,125	–1.6
May	351,112	–9.7	–10.4	–12.8	107,954	–5.1	145,773	–1.8

a This growth rate excludes lending to non-MFI IFSC companies and valuation effects arising from exchange-rate movements.
b Data relate to residential mortgages as reported on the balance sheets of within-the-State offices of credit institutions, i.e., mortgages extended on a cross-border basis are not included. The total reported is the same figure as that reported *vis-à-vis* Irish residents under Item 5.6 (Assets) of Table C3.
c In order to more accurately capture the indebtedness of Irish residents for house purchase, the level of outstanding securitised mortgages (i.e. the initial amount of the securitisation less all repayments of capital made by the borrowers) has been added to the outstanding level of residential mortgages, giving rise to the adjusted growth rate.
d A series of reclassifications from term loans to residential mortgages, starting in September 2005, boosted the level of residential mortgages. These reclassifications have been excluded in the calculation of growth rates between September 2005 and February 2007. The resulting growth rates, shown in the final column, are termed ‘underlying’ growth rates.

Table A3: Irish Contribution to Euro Area Money Supply[a]

€ million	2010		
End-month	31 Mar	30 Apr	31 May
1. Components[b]			
1. Currency issued[c]	11,303	11,481	11,651
2. Overnight deposits	76,119	76,481	75,466
M1 (1+2)	87,422	87,962	87,117
3. Deposits with agreed maturity: up to 2 years	82,344	81,864	81,477
4. Deposits redeemable at notice: up to 3 months	17,039	17,441	17,706
5. Post Office Savings Bank Deposits	1,916	1,946	1,974
M2 (M1+3+4+5)	188,720	189,213	188,275
6. Repurchase agreements	1,340	2,081	1,489
7. Debt securities: up to 2 years maturity[d]	–59,496	–63,120	–62,218
8. Money market fund shares/units	67,315	68,051	67,141
M3 (M2+6+7+8)	197,879	196,225	194,687

2. Selected Measures of Irish Contribution	**M1**		**M2**		**M3**	
Components	1+2		M1+3+4+5		M2+6+7+8	
	Amount	Headline year-to-year change – %	Amount	Headline year-to-year change – %	Amount	Headline year-to-year change – %[e]
2010						
March	87,422	7.8	188,720	1.2	197,879	2.7
April	87,962	9.3	189,213	1.1	196,225	1.7
May	87,117	7.7	188,275	0.6	194,687	3.5

a From 1 January 2009, credit unions are classified as credit institutions. However, their balance sheet data are not included in the *Monthly Statistics*, and Table A3 does not currently include credit unions' deposits in the Irish contribution to the euro-area money supply.
b *Vis-à-vis* residents of Ireland and other Monetary Union Members.
c This comprises the Bank's share of euro banknotes issued in the Eurosystem, in proportion to its paid-up shares in the capital of the ECB, plus coin issued by the Bank less holdings of issued euro banknotes and coin by the MFI sector.
d In line with Eurosystem requirements, these data exclude securities issued to non-euro area residents, while holdings by credit institutions of debt securities up to two years maturity issued by euro-area MFIs are netted off debt securities issued in this category.
e Year-to-year changes in Monetary aggregates are adjusted to account for reclassifications.

Section B

Interest Rates and Balance of Payments

Table B1: Official and Selected Interest Rates

Per cent per annum	2010				
End-month	Feb.	Mar.	Apr.	May	June
1. Eurosystem Official Interest Rates[a]					
Marginal lending facility	1.75	1.75	1.75	1.75	1.75
Deposit facility	0.25	0.25	0.25	0.25	0.25
Main refinancing operations	1.00	1.00	1.00	1.00	1.00
2. Interbank Market — Euribor[b]					
Eonia (overnight)	0.32	0.40	0.34	0.33	0.54
1 month fixed	0.42	0.40	0.41	0.43	0.49
3 month fixed	0.66	0.63	0.66	0.70	0.77
12 month fixed	1.22	1.21	1.24	1.26	1.31
3. Clearing Banks' Prime Rate — Ireland[c]	0.65-2.00	0.65-1.90	0.65-2.00	0.65-2.00	0.65-2.00
4. House Purchase Loans — Ireland[d]	2.45-5.90	2.45-5.90	2.45-5.90	2.45-5.90	2.45-5.90
5. Government Securities Market — Ireland[g]					
2 years to maturity	2.48	2.25	3.52	2.80	2.60
5 years to maturity	3.64	3.52	4.35	3.10	3.87
10 years to maturity	4.59	4.53	5.20	4.74	5.50

a On 7 May 2009, the ECB announced a decrease of 0.5 of a percentage point in the 'marginal lending facility', and 0.25 of a percentage point in the 'main refinancing operations' rates.

b Euribor is the rate at which euro interbank term deposits are offered by one prime bank to another, within the euro area. Daily data from 30 December 1998 are available from www.euribor.org.

c Rates are representative of those charged to large commercial customers for short-term borrowings.

d These are standard variable mortgage rates for 'Credit Institutions: Mortgage Lenders' reporting to the Central Bank & Financial Services Authority of Ireland.

g The yields shown under this heading are representative.

Table B2.1: Retail Interest Rates[a] and Volumes for Outstanding Amounts[b]

End-month	2010 Jan.	Feb.	Mar.	Apr.	May
DEPOSITS					
Households					
With agreed maturity					
— Up to 2 years	**3.13**	**3.09**	**3.03**	**2.90**	**2.88**
	30,623	*30,489*	*30,080*	*29,872*	*29,382*
— Over 2 years	**2.02**	**2.01**	**1.95**	**2.02**	**1.99**
	3,361	*3,345*	*3,339*	*3,283*	*3,176*
Non-financial corporations					
With agreed maturity					
— Up to 2 years	**2.04**	**1.95**	**2.01**	**2.05**	**2.03**
	20,263	*20,683*	*20,698*	*19,863*	*19,951*
— Over 2 years	**0.82**	**0.82**	**0.82**	**0.82**	**0.72**
	2,846	*2,823*	*2,793*	*2,737*	*2,715*
LOANS					
Households					
For house purchase					
— Up to 1 year original maturity	**2.81**	**2.75**	**2.84**	**2.86**	**2.84**
	998	*1,025*	*961*	*1,011*	*943*
— Over 1 and up to 5 years original maturity	**2.67**	**2.69**	**2.73**	**2.72**	**2.75**
	2,070	*2,049*	*1,767*	*1,726*	*1,703*
— Over 5 years original maturity	**2.66**	**2.70**	**2.72**	**2.85**	**2.88**
	106,414	*106,359*	*106,258*	*105,219*	*105,056*
For consumer credit and other loans					
— Up to 1 year original maturity	**6.93**	**7.02**	**7.07**	**7.11**	**7.22**
	7,548	*7,430*	*6,870*	*6,836*	*6,720*
— Over 1 and up to 5 years original maturity	**5.85**	**5.99**	**6.15**	**6.17**	**6.18**
	7,300	*7,131*	*6,644*	*6,602*	*6,416*
— Over 5 years original maturity	**3.88**	**3.90**	**3.97**	**4.20**	**4.18**
	8,841	*8,640*	*8,457*	*8,432*	*8,472*
Non-financial corporations					
— Up to 1 year original maturity	**3.02**	**3.00**	**3.08**	**3.03**	**2.98**
	47,647	*47,375*	*42,247*	*40,905*	*38,451*
— Over 1 and up to 5 years original maturity	**3.17**	**3.15**	**3.23**	**3.19**	**3.20**
	46,377	*46,066*	*44,987*	*41,802*	*40,061*
— Over 5 years original maturity	**2.96**	**2.95**	**2.92**	**2.90**	**2.88**
	52,137	*50,583*	*54,588*	*53,973*	*52,255*

a Rates reported are weighted averages for each instrument category.
b The interest rate and volume data refer to euro-denominated loans and deposits *vis-à-vis* households and non-financial corporations resident in Ireland and other Monetary Union Member States.
Note: Rates are in bold in percentages per annum; volumes are in italics in € million.

Table B2.2: Retail Interest Rates[a] and Volumes for New Business[b]

End-month	2010 Jan.	Feb.	Mar.	Apr.	May
DEPOSITS					
Households					
— Overnight[c]	**0.66**	**0.62**	**0.65**	**0.63**	**0.60**
	37,943	*37,814*	*36,858*	*37,321*	*37,000*
— With agreed maturity	**1.57**	**1.62**	**1.59**	**1.51**	**1.51**
	10,080	*10,263*	*11,335*	*10,616*	*10,191*
— Redeemable at notice[c]	**2.28**	**2.29**	**2.33**	**2.31**	**2.23**
	16,030	*16,340*	*16,581*	*16,978*	*17,226*
Non-financial corporations					
— Overnight[c]	**0.32**	**0.33**	**0.23**	**0.23**	**0.20**
	18,993	*18,215*	*15,909*	*16,053*	*16,035*
— With agreed maturity	**1.10**	**1.04**	**1.05**	**1.13**	**1.09**
	9,128	*8,999*	*10,863*	*8,561*	*8,260*
LOANS					
Households					
Bank overdraft[c]	**12.60**	**12.84**	**12.66**	**12.93**	**12.90**
	2,728	*2,686*	*2,704*	*2,653*	*2,612*
For consumption purposes					
— Floating rate and up to 1 year initial rate fixation	**5.44**	**5.63**	**5.10**	**5.85**	**5.30**
	235	*288*	*345*	*177*	*206*
— Over 1 year initial rate fixation	**9.74**	**9.99**	**10.01**	**9.48**	**9.76**
	58	*59*	*68*	*69*	*65*
For house purchases					
— Floating rate and up to 1 year initial rate fixation	**2.57**	**2.75**	**2.77**	**2.82**	**2.75**
	1,390	*1,399*	*1,771*	*1,572*	*1,442*
— Over 1 year initial rate fixation	**3.54**	**3.39**	**3.51**	**3.66**	**3.83**
	264	*498*	*846*	*1,923*	*1,158*
For other purposes	**2.94**	**3.25**	**4.53**	**3.92**	**3.86**
	163	*116*	*456*	*70*	*74*
Non-financial corporations					
Bank overdraft[c]	**5.74**	**5.77**	**5.89**	**5.97**	**5.81**
	5,302	*5,271*	*5,299*	*5,207*	*5,114*
Other loans up to €1 million					
— Floating rate and up to 1 year initial rate fixation	**3.81**	**3.81**	**3.67**	**3.82**	**3.75**
	389	*473*	*618*	*473*	*547*
— Over 1 year initial rate fixation	**4.39**	**4.67**	**4.71**	**4.63**	**4.60**
	68	*80*	*79*	*81*	*72*
Other loans over €1 million					
— Floating rate and up to 1 year initial rate fixation	**2.68**	**2.89**	**2.54**	**2.74**	**2.87**
	1,899	*1,325*	*4,082*	*1,926*	*2,183*
— Over 1 year initial rate fixation	**2.83**	**2.73**	**2.52**	**1.94**	**2.57**
	196	*346*	*171*	*410*	*187*
APRC for loans to households					
For consumption purposes	**6.28**	**6.40**	**5.93**	**6.85**	**6.34**
	293	*348*	*413*	*247*	*271*
For house purchases	**2.76**	**2.94**	**3.03**	**3.23**	**3.14**
	1,654	*1,898*	*2,618*	*3,495*	*2,600*

a Rates reported are weighted averages for each instrument category.
b The interest rate and volume data refer to euro-denominated loans and deposits *vis-à-vis* households and non-financial corporations resident in Ireland and other Monetary Union Member States.
c For these categories, new business is defined as outstanding amounts.
Note: Rates are in bold in percentages per annum; volumes are in italics in € million.

Table B4.1: Harmonised Competitiveness Indicators for Ireland (HCIs)

1999 Q1 = 100	Nominal HCI (Monthly average)	Real HCI (Deflated by consumer prices)	Real HCI (Deflated by producer prices)
2005			
January	106.57	117.75	108.32
February	105.93	116.96	107.80
March	106.53	117.31	107.94
April	105.69	116.56	107.41
May	104.89	115.81	107.20
June	102.84	113.63	105.13
July	103.14	114.02	105.64
August	103.68	114.52	105.43
September	103.36	114.48	104.36
October	102.95	114.04	103.87
November	102.28	113.14	104.06
December	102.36	112.76	104.16
2006			
January	102.97	113.67	104.06
February	102.36	113.27	103.94
March	102.88	113.86	104.16
April	103.72	114.76	104.38
May	104.73	116.03	104.74
June	104.89	116.12	104.65
July	105.01	116.29	104.32
August	105.00	116.69	104.28
September	104.79	116.14	104.96
October	104.38	115.94	104.33
November	105.00	116.38	104.63
December	105.82	117.44	105.45
2007			
January	105.07	116.85	105.30
February	105.39	117.15	104.73
March	106.12	118.09	104.69
April	106.78	118.89	104.87
May	106.76	118.85	104.71
June	106.34	118.30	104.56
July	106.91	119.11	104.84
August	106.78	119.00	105.66
September	107.68	119.87	105.70
October	108.49	120.62	106.89
November	109.88	122.04	106.82
December	109.97	122.08	107.80
2008			
January	110.79	122.78	108.13
February	110.76	122.98	108.28
March	113.22	126.07	109.62
April	114.38	126.82	111.59
May	113.88	126.20	109.81
June	113.92	126.03	108.81
July	114.39	125.85	108.01
August	112.53	123.70	108.20
September	111.33	122.35	106.56
October	108.71	119.61	106.14
November	108.30	119.51	108.13
December	112.34	123.99	112.73
2009			
January	112.04	123.43	112.74
February	110.46	120.91	111.77
March	112.48	122.85	113.48
April	111.86	121.87	113.62
May	112.33	121.73	113.71
June	112.76	121.72	113.16
July	112.91	121.38	113.72
August	113.21	121.36	112.52
September	114.47	122.12	114.08
October	115.46	122.82	114.49
November	115.27	122.11	113.40
December	114.42	120.72	112.27
2010			
January	112.82	118.84	109.85
February	110.89	116.15	108.67
March	110.77	115.39	107.57
April	109.48	113.65	105.83
May	106.68	110.53	102.81

Notes:
1. See article entitled "Measuring Ireland's Price and Labour Cost Competitiveness" in the Bank's Quarterly Bulletin No. 1 of 2010.
2. A rise in an indicator implies a disimprovement in competitiveness while a fall in an indicator implies an improvement.
3. These indicators are available from January 1995 in excel format on the Bank's website.
4. Real HCIs may be subject to revisions to reflect latest available price data.

Table B4.2: Harmonised Competitiveness Indicators for Ireland (HCIs)

1999 Q1 = 100		Real HCI (Deflated by GDP)	Real HCI (Deflated by whole economy Unit Labour Costs)
1995	Q1	91.35	105.97
	Q2	91.86	106.09
	Q3	92.76	107.00
	Q4	92.60	106.16
1996	Q1	92.63	106.10
	Q2	93.17	106.96
	Q3	94.61	107.56
	Q4	96.98	108.78
1997	Q1	98.42	109.06
	Q2	98.23	105.21
	Q3	96.92	108.31
	Q4	99.91	107.02
1998	Q1	96.05	100.91
	Q2	99.81	101.90
	Q3	100.84	102.15
	Q4	102.00	106.65
1999	Q1	100.00	100.00
	Q2	97.70	100.73
	Q3	99.22	97.46
	Q4	98.19	96.35
2000	Q1	96.94	94.87
	Q2	95.21	92.10
	Q3	95.43	92.14
	Q4	94.37	91.19
2001	Q1	98.59	93.86
	Q2	97.71	93.36
	Q3	100.16	95.76
	Q4	100.31	95.75
2002	Q1	101.49	92.92
	Q2	101.14	94.85
	Q3	105.25	96.14
	Q4	107.25	97.31
2003	Q1	110.90	102.36
	Q2	113.30	104.79
	Q3	113.60	105.83
	Q4	114.61	104.73
2004	Q1	116.30	108.91
	Q2	114.46	108.99
	Q3	114.68	111.06
	Q4	116.54	112.43
2005	Q1	117.11	113.60
	Q2	116.44	112.38
	Q3	114.53	114.75
	Q4	113.84	114.42
2006	Q1	116.67	114.59
	Q2	116.60	116.39
	Q3	118.48	115.75
	Q4	116.24	118.39
2007	Q1	118.93	112.80
	Q2	119.55	119.75
	Q3	117.05	122.05
	Q4	117.83	123.02
2008	Q1	119.54	127.93
	Q2	120.83	131.70
	Q3	119.48	126.83
	Q4	116.33	125.69
2009	Q1	114.78	123.59
	Q2	115.72	121.81
	Q3	114.61	122.35
	Q4	114.37	125.26

Table B5: Indices of Relative Wage Costs in Manufacturing Industry

	Average Hourly Earnings[a]		Unit Wage Costs[a]	
1999 = 100	Ireland	Major Trading Partners	Ireland[c]	Major Trading Partners
Year				
1990	69	71	166	90
1991	73	75	171	94
1992	76	79	163	97
1993	81	83	164	99
1994	82	86	155	98
1995	84	89	136	99
1996	87	92	135	100
1997	90	95	124	100
1998	95	97	110	101
1999	100	100	100	100
2000	106	105	97	99
2001	117	108	95	101
2002	125	112	88	101
2003	131	116	85	101
2004	137	119	85	99
2005	142	122	84	98
2006	149	126	85	98
2007	155	130	85	98
2008	163	134	87	102
2009[f]	171	137	83	108
2010[f]	169	139	77	106
2011[f]	170	142	76	107

	Relative Hourly Earnings[b]		Relative Unit Wage Costs[b]	
1999 = 100	National Currencies	Common Currency (€)	National Currencies	Common Currency (€)
Year				
1990	97	110	185	209
1991	97	107	181	201
1992	96	109	169	192
1993	97	102	165	174
1994	96	101	157	166
1995	95	101	137	146
1996	95	104	135	147
1997	95	104	124	136
1998	97	101	109	113
1999	100	100	100	100
2000	102	95	98	91
2001	108	102	94	88
2002	113	108	87	83
2003	113	117	84	87
2004	116	122	86	90
2005	116	123	86	90
2006	118	125	87	93
2007	119	130	87	94
2008	121	139	86	98
2009[f]	124	143	77	88
2010[f]	121	134	72	80
2011[f]	119	129	71	78

a In national currencies.
b A rise in the index implies a disimprovement in competitiveness while a fall in the index implies an improvement.
c Changes in domestic unit wage costs should be interpreted with caution because of the strong influence of the chemicals sector in recent years.
Sources: Ireland — Central Statistics Office and Central Bank estimates.
Major trading partners comprise the United Kingdom, the United States, Germany, France, Italy, Belgium, the Netherlands, Spain and Singapore. Data on these were derived from the OECD and other sources.

Section C

Banking and Other Financial Institutions

Note: From 1 January 2009, credit unions are classified as credit institutions. Therefore, deposits from, and loans to credit unions are now included under the deposit and loans balances with other MFIs in Tables C3-C7. However, credit unions' balance sheets are not currently incorporated in Tables C3-C7.

Table C2: Financial Statement of the Central Bank and Financial Services Authority of Ireland[a]

€ million

1. Assets

	Gold and gold receivables	Claims on non-euro area residents in foreign currency	Claims on euro area residents in foreign currency	Claims on non-euro area residents in euro	Lending to euro area credit institutions in euro	*of which* Main refinancing operations	Longer-term refinancing operations	Fine-tuning reverse operations
	1	2	3	4	5	6	7	8
2009								
26 June	133	665	7,352	1,488	130,423	20,090	110,333	—
31 July	129	609	4,802	1,665	110,215	7,497	102,718	—
28 August	129	1,290	2,897	1,185	98,403	10,715	87,688	—
25 September	129	1,367	2,707	1,603	91,573	14,418	77,155	—
30 October	132	1,310	125	1,527	87,404	6,750	80,654	—
27 November	132	1,258	154	1,159	78,664	4,340	74,324	—
25 December	132	1,278	132	1,037	91,958	7,525	84,433	—
2010								
29 January	148	1,267	197	1,250	97,733	14,325	83,408	—
26 February	148	1,264	201	1,421	84,998	7,470	77,528	—
26 March	148	1,321	144	1,339	81,043	6,805	74,238	—
30 April	159	1,414	138	1,199	81,253	7,990	73,263	—
28 May	159	1,508	109	1,175	92,644	15,580	76,853	—
25 June	159	1,477	137	1,282	94,790	17,379	76,853	—

2. Liabilities

	Banknotes in circulation	Liabilities to euro area credit institutions in euro	*of which* Current accounts (covering the minimum reserve system)	Deposit facility	Fixed-term deposits	Deposits related to margin calls	Fine-tuning reverse operations	Other liabilities to euro area credit institutions in euro	Debt Certificates issued
	1	2	3	4	5	6	7	8	9
2009									
26 June	11,206	14,763	7,951	6,812	—	—	—	—	—
31 July	11,312	9,865	7,679	2,186	—	—	—	—	—
28 August	11,313	9,670	7,230	2,440	—	—	—	—	—
25 September	11,331	13,297	11,337	1,960	—	—	—	—	—
30 October	11,295	10,121	8,371	1,750	—	—	—	—	—
27 November	11,390	10,950	10,387	563	—	—	—	—	—
25 December	12,219	13,893	8,840	5,053	—	—	—	—	—
2010									
29 January	11,471	16,181	7,455	8,726	—	—	—	—	—
26 February	11,482	11,012	8,462	2,550	—	—	—	—	—
26 March	11,678	15,719	8,163	7,556	—	—	—	—	—
30 April	11,685	12,091	5,961	6,130	—	—	—	—	—
28 May	11,779	14,547	6,249	8,298	—	—	—	—	—
25 June	11,877	13,083	11,673	1,410	—	—	—	—	—

a Data relate to the last Friday of the month.

Note: An advance release calendar for the publication of the analytical accounts of the CBFSAI and of the banking sector that meets the IMF's SDDS requirements is published on the IMF Bulletin Board, http://dsbb.imf.org.

Table C2 — *continued*

1. Assets

Structural Reverse operations	Marginal Lending Facility	Credits related to margin calls	Other claims on euro area credit institutions in euro	Securities of euro area residents in euro	General government debt in euro	Other assets	Total Assets	
9	10	11	12	13	14	15	16	
								2009
—	—	—	428	14,056	—	15,290	169,835	26 June
—	—	—	334	14,111	—	14,193	146,058	31 July
—	—	—	503	14,595	—	11,448	130,450	28 August
—	—	—	65	14,699	—	11,087	123,230	25 September
—	—	—	200	14,861	—	9,111	114,670	30 October
—	—	—	330	15,303	—	10,566	107,566	27 November
—	—	—	636	15,150	—	13,474	123,797	25 December
								2010
—	—	—	479	15,131	—	13,751	129,956	29 January
—	—	—	283	15,241	—	14,643	118,199	26 February
—	—	—	318	15,298	—	14,431	114,042	26 March
—	—	—	421	15,512	—	13,647	113,743	30 April
—	211	—	489	16,501	—	12,251	124,836	28 May
—	558	—	261	17,219	—	14,311	129,636	25 June

2. Liabilities

Liabilities to other euro area residents in euro	Liabilities to non-euro area residents in euro	Liabilities to euro area residents in foreign currency	Liabilities to non-euro area residents in foreign currency	Counterpart of Special Drawing Rights allocated by the IMF	Revaluation accounts	Capital and reserves	Other liabilities	Total Liabilities	
10	11	12	13	14	15	16	17	18	
									2009
24,689	4,620	—	—	98	295	1,291	112,873	169,835	26 June
31,309	4,648	—	—	96	208	1,285	87,335	146,058	31 July
30,938	4,734	—	—	773	208	1,284	71,530	130,450	28 August
28,319	4,554	—	—	845	208	1,284	63,392	123,230	25 September
30,487	3,538	—	—	838	215	1,283	56,893	114,670	30 October
31,673	12	—	—	838	215	1,287	51,201	107,566	27 November
25,759	10	—	—	838	215	1,290	69,573	123,797	25 December
									2010
32,106	16	—	—	844	210	1,319	67,809	129,956	29 January
30,265	13	—	—	844	210	1,315	63,058	118,199	26 February
31,286	14	—	—	844	210	1,530	52,761	114,042	26 March
29,299	12	—	—	874	237	1,531	58,014	113,743	30 April
25,048	10	—	—	874	237	1,531	70,810	124,836	28 May
24,898	10	—	—	874	237	1,531	77,126	129,636	25 June

Table C3: Credit Institutions[a]: Aggregate Balance Sheet

€ million	31 March 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	56,076	14,411	15,926	86,414
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	164,423	167,275	247,162	578,861
3. Deposits from Central Bank	82,573	—	—	82,573
3.1 Short-term	82,573	—	—	82,573
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	3,016	902	3,522	7,441
5. Deposits from other residents (non-MFIs, non-Government entities)	171,074	34,927	68,760	274,760
5.1 Overnight: Current accounts	35,258	646	11,000	46,903
Demand accounts[b]	38,209	1,405	20,354	59,967
5.2 Agreed maturity: Up to and including 1 year	59,440	12,417	26,889	98,747
1 to 2 years	9,415	242	649	10,306
Over 2 years	11,631	19,190	1,854	32,675
5.3 Notice: Up to and including 3 months	16,842	167	593	17,602
Over 3 months	—	—	—	—
5.4 Repurchase agreements	280	860	7,420	8,560
6. Debt securities issued[c]	56,009	29,055	104,852	189,917
6.1 Up to and including 1 year	4,038	4,519	39,419	47,975
6.2 1 to 2 years	13,732	1,903	13,856	29,491
6.3 Over 2 years	38,239	22,634	51,577	112,450
7. Remaining liabilities	41,181	7,020	34,276	82,477
Total liabilities	574,353	253,590	474,499	1,302,442
Assets				
1. Holdings of notes and coin	1,031	—	12	1,044
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	164,423	48,154	178,882	391,460
3. Balances with Central Bank	18,639	92	70	18,801
3.1 Mandatory balances	9,229	—	—	9,229
3.2 Other	9,411	92	70	9,573
4. Loans to general government (central, regional and local)	12,308	11,072	4,076	27,456
5. Loans to other residents (non-MFI, non-Government entities)	348,913	61,793	168,365	579,071
5.1 Overdrafts	8,807	33	870	9,709
5.2 Repurchase agreements	132	—	12,476	12,608
5.3 Loans up to and including 1 year	48,608	3,139	5,115	56,862
5.4 Term/revolving loans	124,674	22,105	39,788	186,567
5.5 Instalment credit/hire-purchase/leases	2,165	269	206	2,640
5.6 Residential mortgages	109,144	96	1,199	110,439
5.7 Other mortgages	12,623	732	534	13,889
5.8 Other loans and securities issued to other residents	42,761	35,419	108,177	186,357
6. Holdings of securities[c]	32,449	109,232	68,390	210,071
6.1 Issued by MFIs	24,766	53,661	34,620	113,047
6.2 Issued by general government	7,683	55,571	33,770	97,024
6.2.1 Exchequer notes	569	3,218	3,135	6,922
6.2.2 Securities	7,114	52,353	30,636	90,102
7. Holdings of shares and other equity	8,451	1,422	5,812	15,685
7.1 Issued by MFIs	3,110	759	2,004	5,873
7.2 Issued by other residents (non-MFI, non-Government entities)	5,342	663	3,807	9,812
8. Fixed assets	1,160	—	—	1,160
9. Remaining assets	23,156	9,060	25,476	57,693
Total assets	610,533	240,826	451,083	1,302,442

a Other MFIs comprise financial institutions whose business is to receive deposits or close substitutes for deposits.
b In line with Eurosystem requirements, demand accounts have been reclassified from deposits redeemable at notice to overnight deposits.
c Money market paper is included in the category ‘Up to and including one year’.

Table C3 — *continued*

€ million	30 April 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	52,736	15,084	16,151	83,972
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	163,327	171,957	238,570	573,854
3. Deposits from Central Bank	79,293	—	—	79,293
3.1 Short-term	79,293	—	—	79,293
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	3,165	693	3,848	7,706
5. Deposits from other residents (non-MFIs, non-Government entities)	172,041	35,729	63,744	271,513
5.1 Overnight: Current accounts	36,350	626	8,794	45,770
Demand accounts[b]	37,422	1,525	19,233	58,181
5.2 Agreed maturity: Up to and including 1 year	59,468	11,620	28,422	99,510
1 to 2 years	9,109	723	612	10,444
Over 2 years	12,408	19,230	1,822	33,460
5.3 Notice: Up to and including 3 months	17,275	132	609	18,015
Over 3 months	—	—	—	—
5.4 Repurchase agreements	7	1,874	4,251	6,132
6. Debt securities issued[c]	56,379	28,469	106,924	191,772
6.1 Up to and including 1 year	4,257	3,686	39,028	46,971
6.2 1 to 2 years	13,760	1,840	13,811	29,412
6.3 Over 2 years	38,362	22,943	54,085	115,390
7. Remaining liabilities	42,122	7,393	35,090	84,605
Total liabilities	569,064	259,325	464,327	1,292,715
Assets				
1. Holdings of notes and coin	870	—	13	883
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	163,327	51,194	174,067	388,588
3. Balances with Central Bank	13,585	93	70	13,748
3.1 Mandatory balances	7,454	—	—	7,454
3.2 Other	6,130	93	70	6,294
4. Loans to general government (central, regional and local)	12,172	11,048	4,382	27,602
5. Loans to other residents (non-MFI, non-Government entities)	346,523	61,143	167,505	575,170
5.1 Overdrafts	8,665	107	599	9,371
5.2 Repurchase agreements	129	—	12,378	12,507
5.3 Loans up to and including 1 year	48,231	3,112	5,124	56,467
5.4 Term/revolving loans	119,453	21,751	39,562	180,766
5.5 Instalment credit/hire-purchase/leases	2,060	274	206	2,540
5.6 Residential mortgages	108,177	96	1,178	109,451
5.7 Other mortgages	13,036	733	538	14,307
5.8 Other loans and securities issued to other residents	46,771	35,070	107,920	189,761
6. Holdings of securities[c]	33,181	107,215	68,398	208,794
6.1 Issued by MFIs	25,427	52,726	34,265	112,417
6.2 Issued by general government	7,754	54,489	34,134	96,377
6.2.1 Exchequer notes	777	2,702	3,543	7,022
6.2.2 Securities	6,977	51,787	30,591	89,355
7. Holdings of shares and other equity	8,498	2,410	6,190	17,099
7.1 Issued by MFIs	3,156	758	2,189	6,103
7.2 Issued by other residents (non-MFI, non-Government entities)	5,342	1,653	4,001	10,996
8. Fixed assets	1,158	—	—	1,158
9. Remaining assets	24,130	10,078	25,465	59,673
Total assets	603,444	243,181	446,090	1,292,715

Table C3 — *continued*

€ million	31 May 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	53,007	15,131	16,912	85,051
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	169,751	187,698	247,280	604,729
3. Deposits from Central Bank	90,473	—	—	90,473
3.1 Short-term	90,473	—	—	90,473
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	3,418	713	2,613	6,745
5. Deposits from other residents (non-MFIs, non-Government entities)	171,472	35,175	64,805	271,452
5.1 Overnight: Current accounts	36,522	681	9,073	46,276
Demand accounts[b]	36,009	1,683	17,390	55,082
5.2 Agreed maturity: Up to and including 1 year	60,316	10,766	30,558	101,640
1 to 2 years	9,064	226	602	9,893
Over 2 years	11,979	20,436	1,956	34,371
5.3 Notice: Up to and including 3 months	17,545	127	621	18,293
Over 3 months	—	—	—	—
5.4 Repurchase agreements	36	1,254	4,606	5,895
6. Debt securities issued[c]	55,809	28,197	102,592	186,599
6.1 Up to and including 1 year	4,025	3,506	33,720	41,251
6.2 1 to 2 years	13,856	1,845	13,638	29,339
6.3 Over 2 years	37,928	22,847	55,235	116,009
7. Remaining liabilities	40,903	8,525	35,835	85,263
Total liabilities	584,834	275,440	470,037	1,330,311
Assets				
1. Holdings of notes and coin	807	—	13	821
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	169,751	51,816	191,140	412,707
3. Balances with Central Bank	12,899	101	73	13,074
3.1 Mandatory balances	7,614	—	—	7,615
3.2 Other	5,285	101	73	5,459
4. Loans to general government (central, regional and local)	15,276	11,118	4,478	30,872
5. Loans to other residents (non-MFI, non-Government entities)	344,940	60,839	175,869	581,648
5.1 Overdrafts	8,377	34	639	9,050
5.2 Repurchase agreements	79	—	14,931	15,011
5.3 Loans up to and including 1 year	46,657	3,129	5,289	55,075
5.4 Term/revolving loans	116,798	21,896	42,153	180,847
5.5 Instalment credit/hire-purchase/leases	1,984	264	203	2,451
5.6 Residential mortgages	107,954	90	1,188	109,232
5.7 Other mortgages	12,754	735	545	14,034
5.8 Other loans and securities issued to other residents	50,336	34,691	110,921	195,948
6. Holdings of securities[c]	32,810	104,858	71,025	208,693
6.1 Issued by MFIs	25,177	53,131	33,910	112,217
6.2 Issued by general government	7,633	51,727	37,115	96,476
6.2.1 Exchequer notes	536	1,693	4,725	6,954
6.2.2 Securities	7,097	50,035	32,390	89,522
7. Holdings of shares and other equity	8,387	2,499	6,399	17,285
7.1 Issued by MFIs	3,193	1,224	2,030	6,447
7.2 Issued by other residents (non-MFI, non-Government entities)	5,194	1,275	4,368	10,837
8. Fixed assets	1,144	—	—	1,144
9. Remaining assets	26,048	10,999	27,021	64,067
Total assets	612,062	242,230	476,019	1,330,311

Table C4: Credit Institutions: Retail Clearing: Aggregate Balance Sheet

€ million	31 March 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	27,062	—	4,537	31,599
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	98,647	7,435	124,877	230,959
3. Deposits from Central Bank	24,209	—	—	24,209
3.1 Short-term	24,209	—	—	24,209
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	2,380	12	2,040	4,433
5. Deposits from other residents (non-MFIs, non-Government entities)	113,100	4,114	14,664	131,878
5.1 Overnight: Current accounts	31,185	65	1,218	32,468
Demand accounts[b]	26,387	131	3,219	29,738
5.2 Agreed maturity: Up to and including 1 year	29,816	3,760	8,343	41,919
1 to 2 years	4,046	104	430	4,580
Over 2 years	9,475	15	1,142	10,632
5.3 Notice: Up to and including 3 months	11,911	38	311	12,261
Over 3 months	—	—	—	—
5.4 Repurchase agreements	280	—	—	280
6. Debt securities issued[c]	25,800	9,615	27,320	62,736
6.1 Up to and including 1 year	2,716	1,302	9,187	13,205
6.2 1 to 2 years	6,905	977	7,609	15,491
6.3 Over 2 years	16,179	7,336	10,524	34,040
7. Remaining liabilities	20,138	1,207	9,143	30,489
Total liabilities	311,337	22,384	182,581	516,301
Assets				
1. Holdings of notes and coin	963	—	9	972
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	95,863	1,890	96,876	194,630
3. Balances with Central Bank	12,741	—	—	12,741
3.1 Mandatory balances	3,841	—	—	3,841
3.2 Other	8,900	—	—	8,900
4. Loans to general government (central, regional and local)	404	—	6	410
5. Loans to other residents (non-MFI, non-Government entities)	198,923	6,505	37,209	242,636
5.1 Overdrafts	7,254	2	62	7,319
5.2 Repurchase agreements	61	—	114	174
5.3 Loans up to and including 1 year	23,693	90	298	24,080
5.4 Term/revolving loans	85,165	3,553	10,429	99,147
5.5 Instalment credit/hire-purchase/leases	1,611	—	7	1,619
5.6 Residential mortgages	57,947	41	613	58,600
5.7 Other mortgages	4,023	1	15	4,039
5.8 Other loans and securities issued to other residents	19,169	2,817	25,671	47,657
6. Holdings of securities[c]	8,843	14,303	12,538	35,683
6.1 Issued by MFIs	4,520	11,344	9,892	25,756
6.2 Issued by general government	4,322	2,958	2,646	9,926
6.2.1 Exchequer notes	—	—	23	23
6.2.2 Securities	4,322	2,958	2,623	9,903
7. Holdings of shares and other equity	2,443	625	2,063	5,131
7.1 Issued by MFIs	1,384	—	1,068	2,452
7.2 Issued by other residents (non-MFI, non-Government entities)	1,059	625	995	2,678
8. Fixed assets	842	—	—	842
9. Remaining assets	16,293	1,831	5,132	23,256
Total assets	337,315	25,154	153,832	516,301

a Other MFIs comprise financial institutions whose business is to receive deposits or close substitutes for deposits.
b In line with Eurosystem requirements, demand accounts have been reclassified from deposits redeemable at notice to overnight deposits.
c Money market paper is included in the category 'Up to and including one year'.

Table C4 — *continued*

€ million	30 April 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	23,991	—	4,619	28,610
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	97,471	6,726	118,866	223,063
3. Deposits from Central Bank	20,709	—	—	20,709
3.1 Short-term	20,709	—	—	20,709
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	2,279	12	2,598	4,889
5. Deposits from other residents (non-MFIs, non-Government entities)	113,804	3,452	14,069	131,325
5.1 Overnight: Current accounts	32,158	65	678	32,901
Demand accounts[b]	25,536	148	2,572	28,256
5.2 Agreed maturity: Up to and including 1 year	29,750	3,080	8,961	41,791
1 to 2 years	3,779	104	414	4,297
Over 2 years	10,296	15	1,130	11,441
5.3 Notice: Up to and including 3 months	12,278	39	315	12,632
Over 3 months	—	—	—	—
5.4 Repurchase agreements	7	—	—	7
6. Debt securities issued[c]	24,969	9,136	26,453	60,557
6.1 Up to and including 1 year	2,824	793	8,188	11,805
6.2 1 to 2 years	6,930	915	7,628	15,473
6.3 Over 2 years	15,214	7,428	10,637	33,280
7. Remaining liabilities	19,843	1,271	8,850	29,963
Total liabilities	303,067	20,596	175,454	499,117
Assets				
1. Holdings of notes and coin	816	—	10	826
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	92,654	2,120	90,110	184,883
3. Balances with Central Bank	7,125	—	—	7,125
3.1 Mandatory balances	3,425	—	—	3,425
3.2 Other	3,700	—	—	3,700
4. Loans to general government (central, regional and local)	382	—	6	387
5. Loans to other residents (non-MFI, non-Government entities)	197,611	6,356	37,102	241,069
5.1 Overdrafts	7,100	2	69	7,171
5.2 Repurchase agreements	85	—	—	85
5.3 Loans up to and including 1 year	22,983	34	282	23,299
5.4 Term/revolving loans	81,716	3,529	10,298	95,544
5.5 Instalment credit/hire-purchase/leases	1,574	—	7	1,581
5.6 Residential mortgages	57,043	41	612	57,697
5.7 Other mortgages	3,805	1	15	3,820
5.8 Other loans and securities issued to other residents	23,304	2,749	25,819	51,872
6. Holdings of securities[c]	9,002	13,859	12,353	35,214
6.1 Issued by MFIs	4,532	10,877	9,626	25,035
6.2 Issued by general government	4,470	2,982	2,727	10,178
6.2.1 Exchequer notes	—	—	24	24
6.2.2 Securities	4,470	2,982	2,703	10,155
7. Holdings of shares and other equity	2,443	639	2,001	5,082
7.1 Issued by MFIs	1,384	—	1,079	2,464
7.2 Issued by other residents (non-MFI, non-Government entities)	1,059	639	921	2,619
8. Fixed assets	844	—	—	844
9. Remaining assets	16,818	1,983	4,885	23,686
Total assets	327,694	24,957	146,466	499,117

Table C4 — *continued*

€ million	31 May 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	23,744	—	4,806	28,549
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	100,345	8,053	125,752	234,150
3. Deposits from Central Bank	25,609	—	—	25,609
3.1 Short-term	25,609	—	—	25,609
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	2,550	11	1,732	4,293
5. Deposits from other residents (non-MFIs, non-Government entities)	112,491	2,995	15,088	130,573
5.1 Overnight: Current accounts	32,080	68	718	32,866
Demand accounts[b]	24,279	134	1,367	25,780
5.2 Agreed maturity: Up to and including 1 year	29,920	2,633	11,022	43,574
1 to 2 years	3,800	107	431	4,338
Over 2 years	9,936	15	1,230	11,181
5.3 Notice: Up to and including 3 months	12,440	38	320	12,799
Over 3 months	—	—	—	—
5.4 Repurchase agreements	36	—	—	36
6. Debt securities issued[c]	24,982	8,900	25,398	59,280
6.1 Up to and including 1 year	2,773	570	7,005	10,347
6.2 1 to 2 years	7,009	919	7,599	15,527
6.3 Over 2 years	15,200	7,412	10,794	33,406
7. Remaining liabilities	19,457	1,292	8,859	29,608
Total liabilities	309,177	21,251	181,634	512,062
Assets				
1. Holdings of notes and coin	768	—	11	778
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	97,358	1,947	97,272	196,577
3. Balances with Central Bank	6,678	—	—	6,678
3.1 Mandatory balances	2,978	—	—	2,978
3.2 Other	3,700	—	—	3,700
4. Loans to general government (central, regional and local)	1,426	—	6	1,432
5. Loans to other residents (non-MFI, non-Government entities)	196,674	6,376	37,381	240,431
5.1 Overdrafts	6,782	2	77	6,860
5.2 Repurchase agreements	43	—	—	43
5.3 Loans up to and including 1 year	23,381	38	368	23,787
5.4 Term/revolving loans	81,633	3,571	10,749	95,953
5.5 Instalment credit/hire-purchase/leases	1,529	—	8	1,537
5.6 Residential mortgages	56,893	42	612	57,547
5.7 Other mortgages	3,528	1	14	3,543
5.8 Other loans and securities issued to other residents	22,885	2,721	25,554	51,160
6. Holdings of securities[c]	9,073	13,354	11,955	34,382
6.1 Issued by MFIs	4,452	10,435	9,123	24,010
6.2 Issued by general government	4,621	2,919	2,832	10,372
6.2.1 Exchequer notes	—	—	—	—
6.2.2 Securities	4,621	2,919	2,832	10,372
7. Holdings of shares and other equity	2,335	655	2,150	5,140
7.1 Issued by MFIs	1,426	—	1,079	2,505
7.2 Issued by other residents (non-MFI, non-Government entities)	909	655	1,070	2,634
8. Fixed assets	829	—	—	829
9. Remaining assets	18,095	2,048	5,672	25,816
Total assets	333,236	24,380	154,447	512,062

Table C5: Credit Institutions: Non-Clearing with Predominantly Domestic Business: Aggregate Balance Sheet

€ million	31 March 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	10,904	6,002	4,288	21,195
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	39,466	79,684	83,368	202,517
3. Deposits from Central Bank	49,194	—	—	49,194
3.1 Short-term	49,194	—	—	49,194
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	636	234	943	1,814
5. Deposits from other residents (non-MFIs, non-Government entities)	50,514	4,118	18,282	72,914
5.1 Overnight: Current accounts	2,938	258	97	3,294
Demand accounts[b]	9,577	252	5,558	15,387
5.2 Agreed maturity: Up to and including 1 year	25,759	2,127	5,379	33,265
1 to 2 years	5,362	12	179	5,553
Over 2 years	1,948	1,389	184	3,521
5.3 Notice: Up to and including 3 months	4,930	79	282	5,291
Over 3 months	—	—	—	—
5.4 Repurchase agreements	—	—	6,603	6,603
6. Debt securities issued[c]	18,747	7,198	24,864	50,809
6.1 Up to and including 1 year	1,205	1,599	7,000	9,804
6.2 1 to 2 years	6,827	265	5,871	12,963
6.3 Over 2 years	10,715	5,334	11,994	28,042
7. Remaining liabilities	16,506	1,889	8,459	26,854
Total liabilities	185,966	99,126	140,204	425,296
Assets				
1. Holdings of notes and coin	68	—	3	71
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	48,064	11,080	45,045	104,189
3. Balances with Central Bank	2,889	—	70	2,959
3.1 Mandatory balances	2,378	—	—	2,378
3.2 Other	511	—	70	580
4. Loans to general government (central, regional and local)	11,169	1,193	353	12,715
5. Loans to other residents (non-MFI, non-Government entities)	131,864	11,770	62,081	205,714
5.1 Overdrafts	1,511	2	245	1,757
5.2 Repurchase agreements	44	—	—	44
5.3 Loans up to and including 1 year	15,083	1,449	2,424	18,956
5.4 Term/revolving loans	35,590	2,183	20,227	58,000
5.5 Instalment credit/hire-purchase/leases	548	—	8	556
5.6 Residential mortgages	51,197	55	586	51,838
5.7 Other mortgages	8,600	686	519	9,806
5.8 Other loans and securities issued to other residents	19,292	7,394	38,072	64,758
6. Holdings of securities[c]	21,922	39,618	16,983	78,523
6.1 Issued by MFIs	18,676	9,500	6,150	34,326
6.2 Issued by general government	3,246	30,117	10,834	44,198
6.2.1 Exchequer notes	569	10	16	595
6.2.2 Securities	2,677	30,107	10,818	43,602
7. Holdings of shares and other equity	5,972	629	2,060	8,661
7.1 Issued by MFIs	1,725	629	218	2,573
7.2 Issued by other residents (non-MFI, non-Government entities)	4,247	—	1,842	6,089
8. Fixed assets	244	—	—	244
9. Remaining assets	4,571	2,159	5,488	12,218
Total assets	226,764	66,450	132,082	425,296

a Other MFIs comprise financial institutions whose business is to receive deposits or close substitutes for deposits.
b In line with Eurosystem requirements, demand accounts have been reclassified from deposits redeemable at notice to overnight deposits.
c Money market paper is included in the category 'Up to and including one year'.

Table C5 — *continued*

€ million	30 April 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	10,489	6,704	4,303	21,497
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	39,547	81,528	84,019	205,093
3. Deposits from Central Bank	50,024	—	—	50,024
3.1 Short-term	50,024	—	—	50,024
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	880	229	706	1,815
5. Deposits from other residents (non-MFIs, non-Government entities)	50,335	4,949	16,009	71,293
5.1 Overnight: Current accounts	2,997	251	105	3,353
Demand accounts[b]	9,491	249	5,711	15,450
5.2 Agreed maturity: Up to and including 1 year	25,623	2,004	5,853	33,480
1 to 2 years	5,323	12	159	5,494
Over 2 years	1,905	1,347	163	3,415
5.3 Notice: Up to and including 3 months	4,997	72	294	5,362
Over 3 months	—	—	—	—
5.4 Repurchase agreements	—	1,014	3,725	4,739
6. Debt securities issued[c]	19,945	7,365	27,440	54,749
6.1 Up to and including 1 year	1,319	1,557	7,232	10,108
6.2 1 to 2 years	6,830	265	5,844	12,939
6.3 Over 2 years	11,795	5,543	14,363	31,701
7. Remaining liabilities	17,206	1,915	8,787	27,908
Total liabilities	188,426	102,689	141,265	432,380
Assets				
1. Holdings of notes and coin	54	—	2	57
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	49,557	12,833	49,363	111,754
3. Balances with Central Bank	3,482	—	70	3,552
3.1 Mandatory balances	1,562	—	—	1,562
3.2 Other	1,920	—	70	1,990
4. Loans to general government (central, regional and local)	11,057	1,172	336	12,565
5. Loans to other residents (non-MFI, non-Government entities)	130,815	11,509	62,128	204,452
5.1 Overdrafts	1,518	1	9	1,528
5.2 Repurchase agreements	17	—	—	17
5.3 Loans up to and including 1 year	15,371	1,537	2,537	19,445
5.4 Term/revolving loans	33,862	1,944	20,423	56,229
5.5 Instalment credit/hire-purchase/leases	481	—	7	488
5.6 Residential mortgages	51,133	55	566	51,754
5.7 Other mortgages	9,231	687	524	10,442
5.8 Other loans and securities issued to other residents	19,202	7,285	38,061	64,548
6. Holdings of securities[c]	22,502	39,182	16,945	78,629
6.1 Issued by MFIs	19,333	9,434	6,081	34,848
6.2 Issued by general government	3,169	29,748	10,864	43,781
6.2.1 Exchequer notes	777	—	13	790
6.2.2 Securities	2,393	29,748	10,851	42,991
7. Holdings of shares and other equity	6,019	628	2,061	8,707
7.1 Issued by MFIs	1,772	628	218	2,618
7.2 Issued by other residents (non-MFI, non-Government entities)	4,247	—	1,842	6,089
8. Fixed assets	241	—	—	241
9. Remaining assets	4,689	2,637	5,098	12,423
Total assets	228,416	67,961	136,003	432,380

Table C5 — *continued*

€ million	31 May 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	9,661	6,590	4,363	20,613
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	41,027	92,015	86,527	219,569
3. Deposits from Central Bank	55,324	—	—	55,324
3.1 Short-term	55,324	—	—	55,324
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	868	191	453	1,511
5. Deposits from other residents (non-MFIs, non-Government entities)	50,764	4,230	16,242	71,236
5.1 Overnight: Current accounts	3,052	304	255	3,611
Demand accounts[b]	9,084	254	5,833	15,171
5.2 Agreed maturity: Up to and including 1 year	26,415	1,895	5,810	34,120
1 to 2 years	5,257	33	127	5,418
Over 2 years	1,851	1,348	158	3,357
5.3 Notice: Up to and including 3 months	5,104	72	301	5,477
Over 3 months	—	—	—	—
5.4 Repurchase agreements	—	324	3,759	4,083
6. Debt securities issued[c]	19,344	7,064	26,699	53,107
6.1 Up to and including 1 year	1,140	1,258	6,488	8,885
6.2 1 to 2 years	6,848	265	5,705	12,818
6.3 Over 2 years	11,357	5,542	14,505	31,404
7. Remaining liabilities	16,565	2,253	9,796	28,613
Total liabilities	193,552	112,342	144,079	449,973
Assets				
1. Holdings of notes and coin	40	—	2	42
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	51,003	13,934	58,338	123,275
3. Balances with Central Bank	2,897	—	73	2,970
3.1 Mandatory balances	1,547	—	—	1,547
3.2 Other	1,350	—	73	1,423
4. Loans to general government (central, regional and local)	13,120	1,173	340	14,633
5. Loans to other residents (non-MFI, non-Government entities)	129,517	11,499	65,364	206,380
5.1 Overdrafts	1,535	—	12	1,547
5.2 Repurchase agreements	9	—	16	25
5.3 Loans up to and including 1 year	12,770	1,503	2,193	16,465
5.4 Term/revolving loans	31,289	1,928	22,291	55,508
5.5 Instalment credit/hire-purchase/leases	447	—	7	454
5.6 Residential mortgages	51,060	48	577	51,685
5.7 Other mortgages	9,226	690	531	10,447
5.8 Other loans and securities issued to other residents	23,181	7,331	39,737	70,250
6. Holdings of securities[c]	22,180	40,019	17,763	79,963
6.1 Issued by MFIs	19,283	10,518	6,268	36,069
6.2 Issued by general government	2,898	29,501	11,495	43,894
6.2.1 Exchequer notes	536	—	13	549
6.2.2 Securities	2,362	29,501	11,482	43,345
7. Holdings of shares and other equity	6,015	628	2,062	8,705
7.1 Issued by MFIs	1,767	628	219	2,614
7.2 Issued by other residents (non-MFI, non-Government entities)	4,248	—	1,843	6,091
8. Fixed assets	239	—	—	239
9. Remaining assets	5,033	2,929	5,805	13,767
Total assets	230,043	70,183	149,747	449,973

Table C6: Credit Institutions: Non-Clearing with Predominantly Foreign Business: Aggregate Balance Sheet

€ million	31 March 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	18,110	8,409	7,102	33,620
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	26,310	80,156	38,918	145,385
3. Deposits from Central Bank	9,170	—	—	9,170
3.1 Short-term	9,170	—	—	9,170
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	—	656	539	1,194
5. Deposits from other residents (non-MFIs, non-Government entities)	7,459	26,695	35,814	69,969
5.1 Overnight: Current accounts	1,134	322	9,685	11,141
Demand accounts[b]	2,244	1,022	11,576	14,842
5.2 Agreed maturity: Up to and including 1 year	3,865	6,530	13,168	23,562
1 to 2 years	7	126	40	173
Over 2 years	209	17,786	527	18,522
5.3 Notice: Up to and including 3 months	—	50	—	50
Over 3 months	—	—	—	—
5.4 Repurchase agreements	—	860	818	1,678
6. Debt securities issued[c]	11,462	12,242	52,668	76,372
6.1 Up to and including 1 year	117	1,617	23,232	24,966
6.2 1 to 2 years	—	660	377	1,037
6.3 Over 2 years	11,346	9,964	29,059	50,369
7. Remaining liabilities	4,538	3,923	16,674	25,135
Total liabilities	77,050	132,080	151,714	360,845
Assets				
1. Holdings of notes and coin	—	—	—	—
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	20,496	35,184	36,961	92,641
3. Balances with Central Bank	3,010	92	—	3,102
3.1 Mandatory balances	3,010	—	—	3,010
3.2 Other	—	92	—	92
4. Loans to general government (central, regional and local)	735	9,879	3,717	14,331
5. Loans to other residents (non-MFI, non-Government entities)	18,127	43,518	69,075	130,720
5.1 Overdrafts	42	28	563	634
5.2 Repurchase agreements	27	—	12,363	12,390
5.3 Loans up to and including 1 year	9,832	1,600	2,394	13,826
5.4 Term/revolving loans	3,920	16,368	9,131	29,419
5.5 Instalment credit/hire-purchase/leases	6	269	190	465
5.6 Residential mortgages	—	—	—	—
5.7 Other mortgages	—	45	—	45
5.8 Other loans and securities issued to other residents	4,300	25,207	44,434	73,942
6. Holdings of securities[c]	1,684	55,311	38,869	95,865
6.1 Issued by MFIs	1,570	32,817	18,579	52,965
6.2 Issued by general government	115	22,495	20,290	42,900
6.2.1 Exchequer notes	—	3,207	3,096	6,303
6.2.2 Securities	115	19,288	17,195	36,597
7. Holdings of shares and other equity	36	168	1,689	1,893
7.1 Issued by MFIs	—	130	718	848
7.2 Issued by other residents (non-MFI, non-Government entities)	36	39	971	1,045
8. Fixed assets	73	—	—	73
9. Remaining assets	2,292	5,070	14,857	22,219
Total assets	46,453	149,223	165,169	360,845

a Other MFIs comprise financial institutions whose business is to receive deposits or close substitutes for deposits.
b In line with Eurosystem requirements, demand accounts have been reclassified from deposits redeemable at notice to overnight deposits.
c Money market paper is included in the category 'Up to and including one year'.

Table C6 — *continued*

€ million	30 April 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	18,256	8,380	7,229	33,865
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	26,309	83,703	35,686	145,698
3. Deposits from Central Bank	8,560	—	—	8,560
3.1 Short-term	8,560	—	—	8,560
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	6	452	544	1,002
5. Deposits from other residents (non-MFIs, non-Government entities)	7,901	27,328	33,665	68,894
5.1 Overnight: Current accounts	1,195	309	8,011	9,515
Demand accounts[b]	2,395	1,129	10,951	14,475
5.2 Agreed maturity: Up to and including 1 year	4,095	6,536	13,608	24,239
1 to 2 years	7	606	40	653
Over 2 years	208	17,867	529	18,604
5.3 Notice: Up to and including 3 months	—	21	—	21
Over 3 months	—	—	—	—
5.4 Repurchase agreements	—	860	526	1,386
6. Debt securities issued[c]	11,466	11,968	53,031	76,466
6.1 Up to and including 1 year	114	1,336	23,608	25,058
6.2 1 to 2 years	—	661	339	1,000
6.3 Over 2 years	11,352	9,972	29,084	50,408
7. Remaining liabilities	5,073	4,208	17,453	26,734
Total liabilities	77,571	136,040	147,608	361,219
Assets				
1. Holdings of notes and coin	—	—	—	—
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	21,117	36,241	34,594	91,952
3. Balances with Central Bank	2,978	93	—	3,071
3.1 Mandatory balances	2,467	—	—	2,467
3.2 Other	510	93	—	604
4. Loans to general government (central, regional and local)	734	9,876	4,040	14,650
5. Loans to other residents (non-MFI, non-Government entities)	18,097	43,278	68,275	129,650
5.1 Overdrafts	46	105	520	672
5.2 Repurchase agreements	28	—	12,378	12,406
5.3 Loans up to and including 1 year	9,878	1,541	2,304	13,723
5.4 Term/revolving loans	3,874	16,278	8,841	28,993
5.5 Instalment credit/hire-purchase/leases	6	273	191	471
5.6 Residential mortgages	—	—	—	—
5.7 Other mortgages	—	44	—	44
5.8 Other loans and securities issued to other residents	4,265	25,036	44,040	73,341
6. Holdings of securities[c]	1,676	54,174	39,100	94,951
6.1 Issued by MFIs	1,562	32,415	18,557	52,533
6.2 Issued by general government	115	21,760	20,543	42,417
6.2.1 Exchequer notes	—	2,702	3,506	6,208
6.2.2 Securities	115	19,058	17,037	36,209
7. Holdings of shares and other equity	37	1,144	2,129	3,309
7.1 Issued by MFIs	—	130	891	1,021
7.2 Issued by other residents (non-MFI, non-Government entities)	37	1,014	1,238	2,288
8. Fixed assets	73	—	—	73
9. Remaining assets	2,623	5,458	15,482	23,563
Total assets	47,334	150,264	163,621	361,219

Table C6 — *continued*

€ million	31 May 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	19,603	8,542	7,743	35,888
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	28,380	87,631	35,000	151,011
3. Deposits from Central Bank	9,540	—	—	9,540
3.1 Short-term	9,540	—	—	9,540
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	1	511	429	941
5. Deposits from other residents (non-MFIs, non-Government entities)	8,217	27,950	33,476	69,643
5.1 Overnight: Current accounts	1,390	309	8,100	9,799
Demand accounts[b]	2,647	1,295	10,189	14,131
5.2 Agreed maturity: Up to and including 1 year	3,981	6,239	13,726	23,946
1 to 2 years	7	86	44	137
Over 2 years	192	19,074	568	19,834
5.3 Notice: Up to and including 3 months	—	18	—	18
Over 3 months	—	—	—	—
5.4 Repurchase agreements	—	930	847	1,777
6. Debt securities issued[c]	11,484	12,232	50,496	74,212
6.1 Up to and including 1 year	113	1,679	20,227	22,018
6.2 1 to 2 years	—	661	334	994
6.3 Over 2 years	11,371	9,893	29,935	51,199
7. Remaining liabilities	4,881	4,980	17,181	27,042
Total liabilities	82,104	141,846	144,325	368,275
Assets				
1. Holdings of notes and coin	—	—	—	—
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	21,390	35,935	35,530	92,856
3. Balances with Central Bank	3,324	101	—	3,426
3.1 Mandatory balances	3,089	—	—	3,090
3.2 Other	235	101	—	336
4. Loans to general government (central, regional and local)	731	9,945	4,132	14,808
5. Loans to other residents (non-MFI, non-Government entities)	18,749	42,964	73,125	134,837
5.1 Overdrafts	60	32	551	643
5.2 Repurchase agreements	28	—	14,915	14,943
5.3 Loans up to and including 1 year	10,506	1,588	2,728	14,823
5.4 Term/revolving loans	3,877	16,398	9,113	29,387
5.5 Instalment credit/hire-purchase/leases	8	264	188	459
5.6 Residential mortgages	—	—	—	—
5.7 Other mortgages	—	44	—	44
5.8 Other loans and securities issued to other residents	4,270	24,639	45,629	74,538
6. Holdings of securities[c]	1,557	51,484	41,307	94,348
6.1 Issued by MFIs	1,442	32,177	18,519	52,139
6.2 Issued by general government	115	19,307	22,788	42,209
6.2.1 Exchequer notes	—	1,693	4,711	6,404
6.2.2 Securities	115	17,614	18,076	35,805
7. Holdings of shares and other equity	37	1,217	2,187	3,440
7.1 Issued by MFIs	—	596	732	1,328
7.2 Issued by other residents (non-MFI, non-Government entities)	37	620	1,455	2,112
8. Fixed assets	76	—	—	76
9. Remaining assets	2,920	6,021	15,544	24,485
Total assets	48,784	147,667	171,825	368,275

Table C7: Credit Institutions: Mortgage Lenders: Aggregate Balance Sheet

€ million	31 March 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	33,828	2,693	6,465	42,987
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	125,413	13,252	150,871	289,537
3. Deposits from Central Bank	42,613	—	—	42,613
3.1 Short-term	42,613	—	—	42,613
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	2,826	32	2,434	5,292
5. Deposits from other residents (non-MFIs, non-Government entities)	148,867	6,358	22,227	177,452
5.1 Overnight: Current accounts	33,444	71	1,251	34,766
Demand accounts[b]	31,619	144	8,397	40,161
5.2 Agreed maturity: Up to and including 1 year	47,068	4,611	10,315	61,994
1 to 2 years	8,943	115	553	9,611
Over 2 years	11,254	1,363	1,237	13,854
5.3 Notice: Up to and including 3 months	16,258	54	474	16,786
Over 3 months	—	—	—	—
5.4 Repurchase agreements	280	—	—	280
6. Debt securities issued[c]	44,521	14,741	34,806	94,067
6.1 Up to and including 1 year	3,916	2,374	12,438	18,728
6.2 1 to 2 years	13,732	1,222	7,819	22,773
6.3 Over 2 years	26,873	11,144	14,549	52,566
7. Remaining liabilities	22,187	1,464	9,689	33,340
Total liabilities	420,255	38,540	226,492	685,288
Assets				
1. Holdings of notes and coin	1,025	—	12	1,038
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	111,243	2,707	103,297	217,247
3. Balances with Central Bank	14,095	—	2	14,097
3.1 Mandatory balances	4,940	—	—	4,940
3.2 Other	9,155	—	2	9,157
4. Loans to general government (central, regional and local)	3,199	—	6	3,204
5. Loans to other residents (non-MFI, non-Government entities)	302,551	7,810	52,646	363,007
5.1 Overdrafts	8,642	3	65	8,709
5.2 Repurchase agreements	61	—	114	174
5.3 Loans up to and including 1 year	25,854	93	415	26,361
5.4 Term/revolving loans	106,919	3,975	13,464	124,358
5.5 Instalment credit/hire-purchase/leases	2,061	—	15	2,077
5.6 Residential mortgages	108,985	74	1,196	110,255
5.7 Other mortgages	12,623	687	534	13,845
5.8 Other loans and securities issued to other residents	37,405	2,979	36,843	77,227
6. Holdings of securities[c]	17,514	18,281	14,446	50,241
6.1 Issued by MFIs	10,361	12,910	11,726	34,997
6.2 Issued by general government	7,153	5,371	2,720	15,244
6.2.1 Exchequer notes	569	—	23	593
6.2.2 Securities	6,584	5,371	2,697	14,651
7. Holdings of shares and other equity	6,638	626	2,110	9,373
7.1 Issued by MFIs	1,669	1	1,088	2,759
7.2 Issued by other residents (non-MFI, non-Government entities)	4,968	625	1,022	6,614
8. Fixed assets	1,072	—	—	1,072
9. Remaining assets	18,126	2,016	5,866	26,009
Total assets	475,462	31,439	178,386	685,288

a Other MFIs comprise financial institutions whose business is to receive deposits or close substitutes for deposits.
b In line with Eurosystem requirements, demand accounts have been reclassified from deposits redeemable at notice to overnight deposits.
c Money market paper is included in the category ‘Up to and including one year’.

Table C7 — *continued*

€ million	30 April 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	30,792	3,447	6,553	40,792
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	124,619	12,716	143,156	280,491
3. Deposits from Central Bank	39,113	—	—	39,113
3.1 Short-term	39,113	—	—	39,113
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	2,841	32	2,803	5,675
5. Deposits from other residents (non-MFIs, non-Government entities)	149,767	5,673	21,755	177,195
5.1 Overnight: Current accounts	34,430	71	711	35,212
Demand accounts[b]	30,711	160	7,874	38,746
5.2 Agreed maturity: Up to and including 1 year	47,273	3,951	10,935	62,160
1 to 2 years	8,598	115	533	9,246
Over 2 years	12,030	1,321	1,222	14,573
5.3 Notice: Up to and including 3 months	16,717	55	479	17,251
Over 3 months	—	—	—	—
5.4 Repurchase agreements	7	—	—	7
6. Debt securities issued[c]	44,758	14,533	34,493	93,784
6.1 Up to and including 1 year	4,141	1,889	11,817	17,847
6.2 1 to 2 years	13,760	1,160	7,841	22,761
6.3 Over 2 years	26,857	11,485	14,835	53,176
7. Remaining liabilities	21,512	1,471	9,454	32,437
Total liabilities	413,402	37,872	218,214	669,488
Assets				
1. Holdings of notes and coin	867	—	13	880
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	108,732	2,469	97,037	208,238
3. Balances with Central Bank	8,979	—	2	8,981
3.1 Mandatory balances	4,354	—	—	4,354
3.2 Other	4,625	—	2	4,627
4. Loans to general government (central, regional and local)	3,063	—	6	3,069
5. Loans to other residents (non-MFI, non-Government entities)	300,699	7,667	52,783	361,149
5.1 Overdrafts	8,494	2	72	8,567
5.2 Repurchase agreements	85	—	—	85
5.3 Loans up to and including 1 year	25,286	196	401	25,884
5.4 Term/revolving loans	102,362	3,797	13,357	119,516
5.5 Instalment credit/hire-purchase/leases	1,969	—	15	1,984
5.6 Residential mortgages	108,017	74	1,176	109,267
5.7 Other mortgages	13,036	688	538	14,263
5.8 Other loans and securities issued to other residents	41,451	2,910	37,223	81,583
6. Holdings of securities[c]	18,265	17,800	14,266	50,331
6.1 Issued by MFIs	10,959	12,410	11,465	34,833
6.2 Issued by general government	7,306	5,390	2,802	15,498
6.2.1 Exchequer notes	766	—	24	790
6.2.2 Securities	6,540	5,390	2,778	14,708
7. Holdings of shares and other equity	6,689	640	2,048	9,377
7.1 Issued by MFIs	1,720	1	1,100	2,821
7.2 Issued by other residents (non-MFI, non-Government entities)	4,969	639	948	6,556
8. Fixed assets	1,070	—	—	1,070
9. Remaining assets	18,610	2,134	5,648	26,393
Total assets	466,975	30,710	171,803	669,488

Table C7 — *continued*

€ million	31 May, 2010			
Vis-à-vis	Irish residents	Other Monetary Union residents	Rest of World residents	Total
Liabilities				
1. Capital and reserves	30,618	3,024	6,780	40,422
2. Deposits from credit institutions and other MFIs[a] (excluding Central Bank)	127,161	14,478	149,868	291,506
3. Deposits from Central Bank	44,763	—	—	44,763
3.1 Short-term	44,763	—	—	44,763
3.2 Other	—	—	—	—
4. Deposits from general government (central, regional and local)	3,100	31	1,763	4,895
5. Deposits from other residents (non-MFIs, non-Government entities)	148,416	5,170	22,629	176,214
5.1 Overnight: Current accounts	34,309	74	752	35,135
Demand accounts[b]	29,130	144	6,761	36,035
5.2 Agreed maturity: Up to and including 1 year	47,759	3,458	12,752	63,969
1 to 2 years	8,574	117	547	9,239
Over 2 years	11,616	1,321	1,328	14,265
5.3 Notice: Up to and including 3 months	16,992	55	488	17,535
Over 3 months	—	—	—	—
5.4 Repurchase agreements	36	—	—	36
6. Debt securities issued[c]	44,187	14,183	32,943	91,312
6.1 Up to and including 1 year	3,912	1,548	10,362	15,822
6.2 1 to 2 years	13,856	1,164	7,664	22,684
6.3 Over 2 years	26,418	11,471	14,917	52,806
7. Remaining liabilities	21,823	1,547	9,396	32,765
Total liabilities	420,066	38,432	223,380	681,878
Assets				
1. Holdings of notes and coin	804	—	13	817
2. Loans to credit institutions and other MFIs[a] (excluding Central Bank)	113,842	2,361	103,829	220,031
3. Balances with Central Bank	8,462	—	2	8,464
3.1 Mandatory balances	3,962	—	—	3,962
3.2 Other	4,500	—	2	4,502
4. Loans to general government (central, regional and local)	4,111	—	6	4,117
5. Loans to other residents (non-MFI, non-Government entities)	298,570	7,673	53,633	359,876
5.1 Overdrafts	8,189	2	79	8,271
5.2 Repurchase agreements	43	—	—	43
5.3 Loans up to and including 1 year	25,561	205	491	26,257
5.4 Term/revolving loans	101,356	3,843	14,115	119,315
5.5 Instalment credit/hire-purchase/leases	1,894	—	15	1,910
5.6 Residential mortgages	107,794	75	1,187	109,056
5.7 Other mortgages	12,754	691	545	13,990
5.8 Other loans and securities issued to other residents	40,978	2,856	37,201	81,035
6. Holdings of securities[c]	18,086	17,225	13,829	49,139
6.1 Issued by MFIs	10,869	11,947	10,916	33,731
6.2 Issued by general government	7,217	5,278	2,913	15,408
6.2.1 Exchequer notes	526	—	—	526
6.2.2 Securities	6,692	5,278	2,913	14,883
7. Holdings of shares and other equity	6,577	656	2,199	9,432
7.1 Issued by MFIs	1,757	1	1,101	2,859
7.2 Issued by other residents (non-MFI, non-Government entities)	4,820	655	1,098	6,573
8. Fixed assets	1,053	—	—	1,053
9. Remaining assets	20,225	2,239	6,485	28,949
Total assets	471,729	30,153	179,995	681,878

Table C8: All Credit Institutions: Sectoral Distribution of Advances

€ million	Resident Non-Government Credit	
	December 2009	March 2010
1. Agriculture and forestry	4,933	4,546
1.1 Farming of cattle and other animals	1,807	1,719
1.2 Dairy farming	1,236	1,170
1.3 Other agricultural activities	1,640	1,437
1.4 Forestry and logging	249	220
2. Fishing	336	318
3. Mining and quarrying	389	387
4. Manufacturing	7,128	6,568
4.1 Food products derived from agricultural activities	2,384	1,991
4.1.1 Processing of meat	384	281
4.1.2 Processing of dairy products and other food products	2,000	1,711
4.2 Food (non-agricultural activities)/beverages/tobacco	864	688
4.3 Textiles, textile products, leather and leather products	83	65
4.4 Wood, pulp, paper products, publishing/printing	1,001	1,066
4.5 Chemicals, man-made fibres, rubber/plastic products	568	577
4.6 Machinery/equipment	672	703
4.7 Computers and office machinery	44	41
4.8 Other manufacturing	1,510	1,436
5. Electricity, gas and water supply	1,122	767
6. Construction	14,388	12,659
7. Wholesale/retail trade & repairs	12,575	11,891
7.1 Sale/maintenance/repair of vehicles; retail sale of fuel	2,016	1,950
7.2 Wholesale/commission trade (except vehicles)	2,816	2,552
7.3 Retail trade/repair of personal/household goods	6,513	6,157
7.4 Other wholesale/retail, not included elsewhere	1,229	1,231
8. Hotels and restaurants	10,753	10,578
8.1 Hotels	6,226	6,172
8.2 Restaurants	745	745
8.3 Public Houses	3,196	3,131
8.4 Other accommodation and catering	587	530
9. Transport, storage and communications	3,010	2,707

Table C8 — *continued*

€ million	Resident Non-Government Credit	
	December 2009	March 2010
10. Financial intermediation	82,627	83,857
10.1 Financial leasing	1,778	1,703
10.2 Non-bank credit grantors, including credit unions	13,106	12,991
10.3 Investment and unit trusts	335	242
10.4 Holding companies	1,739	1,609
10.5 Hire-purchase finance companies	1,064	958
10.6 Life insurance companies	3,868	4,086
10.7 Pension funds	242	239
10.8 Non-life insurance companies	591	544
10.9 Security broker/Fund management	8,384	5,595
10.10 Other financial intermediation	51,519	55,891
11. Real estate and business activities	89,403	86,971
11.1 Real estate activities	83,489	81,089
11.2 Computer and related services	161	156
11.3 Research and development	33	32
11.4 Legal, accounting and consulting	1,846	1,798
11.5 Advertising	54	56
11.6 Other business activities	3,819	3,839
12. Education (Schools and Colleges)	851	815
13. Health and social work	2,679	2,463
14. Other Community, Social & Personal Services	2,806	2,658
14.1 Recreational, cultural, sporting and other service activities	2,630	2,480
14.2 Churches/religious organisations and charities	176	178
15. Personal (private households) and charities	129,726	127,070
15.1 House mortgage finance	109,886	109,144
15.1.1 Principal dwelling houses	78,488	79,311
15.1.2 Buy-to-Let residential properties	30,057	28,580
15.1.3 Holiday homes/second houses	1,341	1,253
15.2 Other housing finance	655	526
15.3 Finance for investment	2,211	2,064
15.4 Other personal	16,974	15,336
Total	362,726	354,255

Table C9: Credit Institutions: Sectoral Distribution of Advances and Deposits

€ million	December 2009		
	Non-resident non-Government credit	Non-resident non-Government deposits	Resident non-Government deposits
1. Agriculture and Forestry	194	42	2,496
2. Fishing	5	0	112
3. Mining and quarrying	525	167	294
4. Manufacturing	6,164	3,049	5,989
5. Electricity, gas and water supply	9,603	1,215	898
6. Construction	3,159	473	3,578
7. Wholesale/retail trade & repairs	1,738	2,386	4,591
8. Hotels and restaurants	1,227	132	655
9. Transport, storage and communications	18,096	1,979	3,766
10. Financial intermediation	155,565	81,751	45,106
11. Real estate and business activities	22,930	3,322	14,781
12. Education (Schools and Colleges)	1,538	53	1,666
13. Health and social work	3,199	106	894
14. Other Community, Social & Personal Services	1,006	1,407	4,800
15. Personal (private households)	4,288	3,985	81,630
Total	229,238	100,068	171,256

€ million	March 2010		
	Non-resident non-Government credit	Non-resident non-Government deposits	Resident non-Government deposits
1. Agriculture and Forestry	46	47	2,344
2. Fishing	11	0	104
3. Mining and quarrying	562	232	294
4. Manufacturing	6,631	3,462	5,271
5. Electricity, gas and water supply	9,811	873	994
6. Construction	3,247	385	3,277
7. Wholesale/retail trade & repairs	1,973	2,303	4,246
8. Hotels and restaurants	1,369	92	620
9. Transport, storage and communications	18,893	3,241	3,683
10. Financial intermediation	156,594	84,123	49,475
11. Real estate and business activities	24,734	3,025	12,217
12. Education (Schools and Colleges)	1,624	98	1,795
13. Health and social work	3,327	119	1,033
14. Other Community, Social & Personal Services	1,329	1,495	4,860
15. Personal (private households)	4,477	4,190	80,860
Total	234,629	103,687	171,074

Table C10: All Credit Institutions: International Business: Analysis by Currency, Sector and Maturity

€ million	31 Dec 2009	31 March 2010
Assets		
1. Analysis by currency		
Irish residents in non-euro	69,185	65,112
US dollar	30,549	28,738
Sterling	28,670	26,967
Other	9,966	9,407
Non-residents in non-euro	357,421	358,750
US dollar	145,305	148,590
Sterling	168,648	160,745
Other	43,468	49,415
Non-Residents in euro	292,399	295,797
2. Analysis by sector		
Irish residents in non-euro		
Monetary financial institutions	28,748	27,899
Non-monetary financial institutions	40,437	37,214
Non-residents in non-euro		
Monetary financial institutions	173,146	165,542
non-monetary financial institutions	184,275	193,208
Non-Residents in euro		
Monetary financial institutions	144,507	149,887
non-monetary financial institutions	147,892	145,910
3. Total international business	**719,005**	**719,659**

Note: Data in this table are currently being collected under new reporting arrangements. As these new arrangements are still in the implementation phase, some estimation has been necessary, and some data for December 2009 have been revised.

€ million	31 Dec 2009	31 March 2010
Liabilities		
1. Analysis by currency		
Irish residents in non-euro	49,076	50,506
US dollar	22,208	24,404
Sterling	16,327	15,790
Other	10,541	10,313
Non-residents in non-euro	309,444	297,024
US dollar	155,999	143,866
Sterling	122,276	115,261
Other	31,169	37,897
Non-Residents in euro	348,631	365,369
2. Analysis by sector		
Irish residents in non-euro		
Monetary financial institutions	30,762	30,398
Non-monetary financial institutions	18,314	20,109
Non-residents in non-euro		
Monetary financial institutions	233,563	219,101
non-monetary financial institutions	75,881	77,923
Non-Residents in euro		
Monetary financial institutions	290,806	303,467
non-monetary financial institutions	57,825	61,903
3. Total international business	**707,152**	**712,900**

Table C11: All Credit Institutions: International Business: Analysis by Geographic Area

€ million	Liabilities			Assets			
	Denominated in:			Denominated in:			
	Euro	Non–euro	Total	Euro	Non–euro	Total	Net external liabilities[a]
Return dates	2009						
	31 December						
1. EU countries	**316,420**	**272,335**	**588,755**	**272,607**	**284,016**	**556,623**	**+52,241**
MU countries	**183,199**	**92,921**	**276,120**	**206,163**	**96,951**	**303,114**	**–6,886**
Austria	1,911	550	2,461	3,405	1,050	4,455	–1,995
Belgium	42,339	12,700	55,039	6,562	3,934	10,496	+44,543
Luxembourg	3,020	864	3,884	5,821	2,427	8,248	–4,363
Finland	92	40	132	1,299	490	1,790	–1,657
France	27,327	2,285	29,611	21,984	3,288	25,273	+4,338
Germany	93,240	13,327	106,567	30,668	3,623	34,292	+72,275
Greece	8	25	33	5,712	443	6,155	–6,122
Ireland	—	49,076	49,076	—	69,185	69,185	—
Italy	4,201	616	4,817	64,670	6,726	71,396	–66,579
Netherlands	7,109	12,002	19,111	18,174	3,009	21,183	–2,072
Portugal	155	105	260	5,862	16	5,878	–5,618
Spain	2,855	600	3,455	39,106	2,332	41,437	–37,983
Other MU[b]	943	731	1,674	2,899	428	3,327	–1,653
Other EU	**133,222**	**179,414**	**312,635**	**66,444**	**187,065**	**253,509**	**+59,127**
Denmark	6,835	523	7,358	3,751	1,601	5,352	+2,006
Sweden	118	292	410	1,560	2,004	3,565	–3,155
United Kingdom	125,882	178,283	304,165	54,221	179,120	233,341	+70,824
Other EU	387	315	702	6,911	4,340	11,251	–10,549
2. Other Europe	**3,305**	**7,117**	**10,422**	**3,401**	**11,819**	**15,219**	**–4,798**
Switzerland	2,538	6,651	9,189	291	7,012	7,303	+1,886
Other Europe	766	466	1,233	3,110	4,806	7,916	–6,683
3. Other Industrial Countries	**20,713**	**56,739**	**77,452**	**13,669**	**112,639**	**126,308**	**–48,856**
Australia, New Zealand, South Africa	202	1,242	1,443	2,722	5,823	8,545	–7,102
Canada	1,123	8,381	9,504	1,870	7,727	9,597	–93
Japan	68	275	343	577	11,509	12,085	–11,743
United States	19,321	46,841	66,162	8,500	87,581	96,081	–29,919
4. Offshore Centres	**6,069**	**19,631**	**25,700**	**775**	**10,153**	**10,928**	**+14,772**
5. Other	**2,124**	**2,698**	**4,822**	**1,947**	**7,979**	**9,927**	**–5,104**
6. Total international business	**348,631**	**358,520**	**707,152**	**292,399**	**426,606**	**719,005**	**+8,255**

[a] Net external liabilities are based on the selected assets and liabilities which are included in this table. A plus sign denotes net external liabilities; a minus sign net external assets.

[b] Positions *vis-à-vis* Slovenia, Cyprus, Malta and Slovenia are not statistically significant.

Note: Data in this table are currently being collected under new reporting arrangements. As these new arrangements are still in the implementation phase, some estimation has been necessary, and data for December 2009 have been revised.

Liabilities			Assets			
Denominated in:			Denominated in:			
Euro	Non–euro	Total	Euro	Non–euro	Total	Net external liabilities[a]
2010						
31 March						
330,198	**267,279**	**597,477**	**278,125**	**272,605**	**550,731**	**+61,352**
185,324	**97,532**	**282,856**	**205,241**	**90,878**	**296,119**	**+1,343**
2,450	558	3,009	3,273	1,118	4,392	–1,383
40,277	12,175	52,452	7,470	1,212	8,682	+43,770
2,580	959	3,539	5,296	2,727	8,023	–4,484
39	81	120	1,285	447	1,732	–1,612
25,997	4,409	30,406	24,144	2,897	27,041	+3,364
97,168	14,999	112,168	31,227	4,364	35,591	+76,576
18	19	37	5,426	354	5,780	–5,744
—	50,506	50,506	—	65,112	65,112	—
3,540	1,071	4,611	63,605	5,858	69,464	–64,852
8,281	11,856	20,137	18,309	3,903	22,212	–2,075
337	90	427	5,667	132	5,799	–5,371
3,347	154	3,501	36,680	2,327	39,007	–35,506
1,289	654	1,943	2,858	425	3,283	–1,340
144,874	**169,747**	**314,621**	**72,884**	**181,728**	**254,612**	**+60,009**
10,861	649	11,510	7,505	1,745	9,250	+2,260
370	539	909	1,576	2,413	3,988	–3,079
133,084	168,432	301,516	57,009	171,890	228,899	+72,616
559	127	686	6,795	5,679	12,474	–11,788
4,018	**8,882**	**12,900**	**3,110**	**11,971**	**15,081**	**–2,181**
2,846	8,442	11,288	239	6,645	6,884	+4,404
1,172	440	1,612	2,871	5,326	8,197	–6,585
21,244	**45,969**	**67,213**	**11,520**	**120,772**	**132,292**	**–65,079**
137	959	1,097	2,244	7,213	9,457	–8,361
815	8,721	9,536	1,621	8,637	10,258	–723
112	229	341	583	11,028	11,611	–11,270
20,179	36,060	56,239	7,072	93,893	100,966	–44,727
6,808	**21,461**	**28,269**	**1,134**	**9,802**	**10,935**	**+17,334**
3,101	**3,940**	**7,041**	**1,908**	**8,712**	**10,619**	**–3,579**
365,369	**347,530**	**712,900**	**295,797**	**423,862**	**719,659**	**+7,847**

Table C13: Analysis of Residential Mortgages vis-à-vis Irish Residents

€ million	Variable rate	Fixed rate	*of which:*			Total
			Over 1 and up to 3 years	Over 3 and up to 5 years	Over 5 years	
2002						
31 December	33,137	10,279	5,475	2,698	2,106	43,416
2003						
31 March	34,716	10,767	6,219	2,552	1,996	45,483
30 June	36,467	10,445	6,034	2,539	1,871	46,912
30 September	40,318	10,299	6,642	2,348	1,309	50,617
31 December	44,007	10,607	7,077	2,299	1,231	54,614
2004						
31 March	46,809	11,083	7,220	2,176	1,687	57,892
30 June	50,843	10,994	7,444	1,930	1,620	61,837
30 September	55,731	12,887	9,313	1,880	1,694	68,618
31 December	60,563	12,557	9,234	1,673	1,650	73,120
2005						
31 March	64,448	12,359	9,065	1,633	1,661	76,807
30 June	69,961	12,269	8,994	1,681	1,594	82,230
30 September	75,605	12,522	9,032	1,827	1,664	88,127
30 December	79,720	14,539	10,171	2,553	1,815	94,259
2006						
31 March	84,045	16,037	11,731	2,682	1,623	100,082
30 June	87,124	17,214	12,071	3,333	1,810	104,338
29 September	89,257	18,708	12,667	4,074	1,967	107,965
29 December	90,355	20,247	12,793	5,306	2,148	110,603
2007						
30 March	88,480	23,878	15,236	6,295	2,347	112,358
29 June	88,461	27,243	19,774	4,944	2,525	115,704
28 September	90,880	29,642	20,060	6,952	2,630	120,522
31 December	92,657	30,345	20,811	6,979	2,555	123,002
2008						
31 March	94,026	30,359	20,662	7,115	2,582	124,385
30 June	93,034	27,535	17,932	7,016	2,587	120,569
30 September	95,730	27,314	17,090	7,449	2,775	123,045
31 December	91,433	22,857	13,272	6,878	2,707	114,290
2009						
31 March	93,805	19,832	10,590	6,409	2,833	113,637
30 June	95,777	18,083	9,243	6,160	2,680	113,860
30 September	93,510	16,254	7,781	5,913	2,559	109,764
31 December	94,813	15,073	6,906	5,715	2,452	109,886
2010						
31 March	93,541	15,603	6,899	5,677	3,026	109,144

Notes:

1. Data relate to residential mortgages as reported on the balance sheets of within-the-State offices of credit institutions, i.e., mortgages extended on a cross-border basis are not included. The total reported above is the same figure as that reported vis-à-vis Irish residents under item 5.6 (Assets) of *Table C3: Credit Institutions: Aggregate Balance Sheet* and so does not include securitised mortgages.
2. Variable rate includes fixed rate mortgages of up to and including 1 year.
3. Fixed rate mortgages are classified according to the term over which the interest rate is fixed and not the term of the mortgage, e.g., a 20-year mortgage with a two-year fixed interest rate is included under *Fixed Rate: Over 1 and up to 3 years.*

Table C14: Credit Card Statistics

Vis-à-vis Irish Residents	No. of credit cards in issue[a]	*of which:*		New spending during month[b]	*of which:*	
End-month	(000)	Personal cards	Business cards	€ million	Personal cards	Business cards
2007						
May	2,217	2,081	136	1,191.3	1,038.0	153.3
June	2,229	2,091	138	1,133.5	991.5	142.0
July	2,241	2,101	139	1,255.7	1,106.8	148.9
August	2,250	2,109	141	1,221.5	1,077.5	144.0
September	2,262	2,120	142	1,103.3	957.8	145.5
October	2,276	2,132	144	1,234.6	1,067.7	166.9
November	2,294	2,149	146	1,207.0	1,047.5	159.6
December	2,303	2,156	147	1,297.6	1,136.2	161.4
2008						
January	2,311	2,164	148	1,199.5	1,048.7	150.8
February	2,326	2,176	150	1,092.6	938.2	154.5
March	2,335	2,184	151	1,146.1	999.6	146.4
April	2,347	2,195	152	1,183.3	1,020.0	163.3
May	2,357	2,204	153	1,171.5	1,016.2	155.3
June	2,365	2,211	154	1,164.8	1,013.6	151.2
July	2,374	2,222	152	1,242.0	1,089.2	152.8
August	2,375	2,219	156	1,111.5	977.8	133.7
September	2,377	2,219	157	1,206.9	1,046.1	160.9
October	2,379	2,222	158	1,120.8	965.8	155.0
November	2,380	2,222	158	1,004.3	867.7	136.6
December	2,381	2,223	158	1,244.3	1,091.4	152.9
2009						
January	2,382	2,224	158	992.1	869.4	122.7
February	2,370	2,212	158	889.5	766.4	123.1
March	2,369	2,208	161	1,009.2	875.8	133.4
April	2,368	2,207	160	968.3	840.4	127.9
May	2,362	2,203	160	927.1	801.1	126.0
June	2,358	2,198	160	1,043.9	909.7	134.1
July	2,356	2,197	160	1,045.0	913.6	131.4
August	2,354	2,194	160	978.6	859.6	119.0
September	2,349	2,190	159	1,028.1	890.6	137.5
October	2,347	2,188	158	957.5	821.5	136.0
November	2,337	2,178	158	946.3	810.9	135.4
December	2,333	2,175	158	1,068.9	929.3	139.6
2010						
January	2,325	2,170	155	846.5	732.4	114.2
February	2,322	2,164	158	869.4	738.9	130.5
March	2,302	2,144	158	1,018.5	868.9	149.6
April	2,299	2,143	156	934.1	800.0	134.1
May	2,313	2,157	156	928.2	792.0	136.2

a Data relate to credit cards (i.e. Visa, MasterCard) in issue by credit institutions resident in Ireland. Debit cards or store cards are excluded.
b Data refer to new spending on all credit cards during the reference period and not just spending on new credit cards.
c Data refer to debt outstanding on all credit cards at month-end and include balances that may be paid in full at the payment due date.

Payment received during month	*of which:*		Outstanding indebtedness on credit cards[c]	*of which:*		Outstanding indebtedness year-to-year change	
€ million	Personal cards	Business cards	€ million	Personal cards	Business cards	%	
							2007
1,346.9	1,200.0	146.4	2,673.2	2,544.6	128.5	11.5	May
1,138.7	997.1	141.7	2,692.7	2,563.4	129.4	10.6	June
1,267.5	1,114.1	153.4	2,720.9	2,595.6	125.3	11.7	July
1,208.6	1,061.7	146.8	2,762.9	2,639.7	123.3	11.7	August
1,074.9	936.2	138.7	2,817.7	2,686.9	130.8	11.6	September
1,271.1	1,108.8	162.4	2,810.6	2,674.7	135.9	11.5	October
1,187.0	1,031.6	155.4	2,866.5	2,724.3	142.2	11.1	November
1,198.6	1,039.2	159.4	2,992.2	2,847.3	144.9	9.3	December
							2008
1,278.6	1,116.3	162.3	2,938.1	2,802.7	135.3	8.9	January
1,145.7	997.6	148.1	2,919.8	2,777.3	142.5	8.2	February
1,167.7	1,008.3	159.4	2,930.2	2,799.9	130.3	8.6	March
1,209.4	1,053.3	156.1	2,992.3	2,850.2	142.2	7.2	April
1,210.7	1,052.2	158.5	2,990.4	2,850.6	139.8	11.9	May
1,184.4	1,028.7	155.7	3,000.7	2,864.4	136.3	11.4	June
1,273.1	1,115.0	158.2	2,999.1	2,867.4	131.7	10.2	July
1,099.1	959.3	139.8	3,042.3	2,916.2	126.1	10.1	August
1,202.2	1,052.6	149.6	3,078.7	2,940.4	138.3	9.3	September
1,181.4	1,024.1	157.4	3,052.1	2,915.2	136.9	8.6	October
1,043.2	897.5	145.7	3,045.9	2,917.4	128.6	6.3	November
1,194.5	1,043.8	150.7	3,128.5	2,997.0	131.5	4.6	December
							2009
1,088.7	953.6	135.1	3,066.5	2,946.5	120.0	4.4	January
965.1	839.7	125.4	3,015.3	2,896.7	118.6	3.3	February
1,087.7	955.5	132.2	2,963.8	2,843.0	120.8	1.1	March
999.2	865.8	133.5	3,016.4	2,896.2	120.2	0.8	April
976.2	852.3	123.9	2,993.7	2,870.8	122.9	0.1	May
1,041.2	906.5	134.8	3,020.9	2,898.3	122.6	0.7	June
1,067.5	934.0	133.5	3,035.5	2,914.2	121.3	1.2	July
985.3	862.1	123.2	3,042.1	2,924.2	117.8	0.0	August
1,013.5	884.3	129.2	3,078.1	2,951.2	126.9	0.0	September
1,008.9	873.7	135.2	3,052.5	2,924.0	128.6	0.0	October
994.3	858.2	136.1	3,028.8	2,900.8	128.0	–0.6	November
1,015.0	876.2	138.8	3,106.3	2,976.3	130.0	–0.7	December
							2010
943.5	815.4	128.0	3,033.5	2,912.8	120.7	–1.1	January
891.1	764.7	126.4	3,035.0	2,909.9	125.1	0.7	February
1,081.6	939.4	142.2	2,976.8	2,843.4	133.3	0.4	March
945.5	811.4	134.1	3,038.0	2,899.5	138.5	0.7	April
985.3	848.3	137.0	2,998.3	2,860.1	138.2	0.2	May

Section D

Public Finances

Table D1: Government Debt and Government-Guaranteed Debt[a]

€ million	2009			2010
End-quarter	30 June	30 Sep.	31 Dec.	31 Mar.
Government Debt				
Amount outstanding (gross)				
Euro-denominated debt				
Government stock	57,453	61,262	70,858	80,863
Exchequer Bills/Notes, Central Treasury Notes	13,685	13,701	9,265	9,214
Saving Certificates/Stamps	2,811	2,950	3,105	3,320
Prize Bonds	944	1,015	1,073	1,151
Savings Bonds	2,332	2,526	2,761	3,105
National Instalment Savings	443	449	456	459
Ways and means	2,079	2,247	1,783	2,046
Borrowings from Central Bank, etc.	—	—	—	—
Local loans funds	5	5	5	5
Short-term paper	6,959	3,649	1,746	521
FX contracts	6,987	7,345	5,258	4,650
EIB loans	—	—	—	—
Public bond issues	—	—	—	—
Private placements	218	218	218	217
Medium-term notes	—	—	—	—
Swaps	448	448	448	448
Total euro-denominated debt	94,364	95,815	96,975	105,998
Non-euro-denominated debt				
EIB loans	—	—	—	—
Public bond issues	—	—	—	—
Private placements	—	—	—	—
Medium-term notes	428	418	422	450
Swaps	–428	–418	–422	–450
Short-term paper	6,756	7,115	5,373	5,011
FX contracts	–6,830	–7,142	–5,381	–4,794
Total non-euro-denominated debt	–75	–27	–8	218
Gross debt	**94,289**	**95,788**	**96,967**	**106,216**
Residual Maturity Profile				
Amounts due to mature in:				
— ≤ 1 year	30,688	25,409	19,967	18,632
— Over 1 year but ≤ 5 years	18,846	22,035	27,849	29,283
— Over 5 year but ≤ 10 years	22,854	25,556	33,059	33,898
— Over 10 years	21,901	22,788	16,092	24,403
Total	94,289	95,788	96,967	106,216
Government-guaranteed debt	**5,785**	**5,210**	**5,116**	**4,763**

a The term Government debt refers to central government debt. The data provided on Government-guaranteed debt refer mainly to State-sponsored bodies. An advance release calendar for central government debt is shown on the IMF Special Data Dissemination Standards (SDDS) Bulletin Board.

Sources: NTMA and Department of Finance.

Table D2: Government Stock — Nominal Holdings

€ million	2009			2010
End-quarter	June	September	December	March
1. Resident[a]	11,284	11,360	11,865	12,144
— MFIs and Central Bank	8,081	8,074	8,297	8,234
— General government	450	337	314	312
— Financial intermediaries	2,426	2,623	2,921	3,352
i) Financial auxiliaries	210	270	299	302
ii) Insurance corporations and pension funds	2,165	2,307	2,568	2,688
iii) Other financial intermediaries	51	46	54	362
— Non Financial Corporations	122	199	128	38
— Households	205	127	205	208
2. Rest of world	46,169	49,903	58,993	68,719
Total	57,453	61,263	70,858	80,863
3. Amounts due to mature in:				
— Less than 3 years	9,836	10,258	11,062	10,841
— 3 or more years but less than 5 years	12,668	14,422	14,625	16,021
— 5 or more years but less than 10 years	20,965	21,712	29,296	29,815
— 10 or more years but less than 15 years	13,984	14,871	8,875	24,186
— 15 or more years			7,000	
Total	57,453	61,263	70,858	80,863

a Above conform to ESA95 standard. Financial auxiliaries include, for example, insurance and security brokers and investment advisors, etc. Other financial intermediaries include mutual funds, financial leasing, etc.

Explanatory Notes

The Central Bank of Ireland became the Central Bank & Financial Services Authority of Ireland (the 'Bank') on 1 May 2003. However, in order to ensure clarity and continuity in the statistical tables and Explanatory Notes the term 'Central Bank' is generally used.

Section A: Main Monetary Indicators

Selected Monetary Aggregates

1. Selected Measures of Private-Sector Credit

Private-sector credit of all credit institutions comprises all forms of lending, including accrued interest thereon, by within-the-State offices of all credit institutions to Irish resident entities other than credit institutions, the Central Bank and the General Government.

2. Monetary Aggregates

The Irish contribution to *narrow money supply M1,* contains two components, namely currency in circulation and overnight deposits. Currency in circulation comprises the Bank's share of euro banknotes issued in the Eurosystem, in proportion to the Bank's paid-up shares in the capital of the ECB, plus coin issued by the Central Bank less holdings by within-the-State offices of MFIs of issued euro banknotes and coin. Overnight deposits comprise sight/demand deposits held at within-the-State offices of all credit institutions and the Post Office Savings Bank by Irish and other monetary union resident private-sector entities, i.e., by Irish and other monetary union resident entities other than credit institutions, the Central Bank and Central Government.

The Irish contribution to the *intermediate money supply M2*, comprises M1 plus deposits with an agreed maturity of up to 2 years, deposits with a period of notice of up to 3 months denominated in both euro and foreign currency held at within-the-State offices of all credit institutions and the Post Office Savings Bank, by Irish and other monetary union resident private-sector entities, i.e., by Irish and other monetary union resident entities other than credit institutions, the Central Bank and Central Government.

The Irish contribution to the *broad money supply M3*, covers M2, repurchase agreements and debt securities with a maturity of up to 2 years issued by within-the-State offices of all credit institutions to Irish and other monetary union resident private-sector entities minus holdings by credit institutions of securities issued by euro-area MFIs. It also includes money market fund (MMF) shares/units issued by resident MMFs to Irish and other euro-area residents.

Section B: Interest Rates and Balance of Payments

Official and Selected Interest Rates

Table B1 includes key ECB and money-market interest rates and selected domestic rates, which were previously in Tables B1 and B2.

Retail Interest Rates

Tables B2.1 and B2.2 show retail interest rates and volumes for outstanding amounts and new business collected under Regulation ECB/2001/18. This regulation provides a framework for collecting harmonised interest-rate data for euro-denominated loans and deposits vis-à-vis households and non-financial corporations resident in the euro area. Rates are calculated as weighted averages for all products within each instrument category.

For all instrument categories except the APRC, the rate relates to the interest component only. The APRC includes the interest component plus any other charges applied by the lending institution.

Trade-Weighted Competitiveness Indicators for Ireland

1. Weights (%)

UK (27.66), US (18.31), Germany (16.22), France (9.12), Japan (8.57), Netherlands (5.67), Italy (5.43), Belgium (3.51), Singapore (2.93) and Spain (2.58).

2. Deflators

Consumer Prices — Harmonised Indices of Consumer Prices (HICP) are used for Ireland and the other EU countries. CPI indices are used for the remaining three countries.

Producer Prices — Indices of domestic output prices for manufacturing are used for Ireland, the other EU countries and Japan. The index for finished goods is used for the US while the wholesale index is used for Singapore.

Since seasonally-adjusted data are not universally available, non-seasonally adjusted price indices are used.

Section C: Banking and Other Financial Institutions

Credit Institutions: Monthly Balance-Sheet Statistics

1. Coverage

The monthly balance-sheet statistics relate to liabilities and assets, classified on a residency basis in respect of within-the-State offices.

2. Residency

The residency classification is based on the residency of a customer and not on the location of the particular branch in which the account is maintained. Irish residents comprise the General Government, individuals living in the State for at least one year, private non-profit-making bodies, and enterprises, both public and private, that operate within the State. The definition of residency conforms to international balance-of-payments convention.

3. Valuation

Unless otherwise specified, all liabilities and assets are recorded at the value standing in reporting institutions' books (''book value'') on return dates. In some cases, book value will reflect not only the cash value but also revaluations and internal transfers.

All non-euro liabilities and assets, regardless of residency classification, are valued at mid-spot rates on return dates and recorded in the tables as euro equivalents of the amounts outstanding on those days.

The valuation of liabilities and assets would not normally include accrued interest payable or receivable on relevant accounts, nor would it include unearned interest or charges. However, where a liability or asset is valued at market price which indistinguishably includes interest, such accrued interest may form part of the valuation; where interest is paid by means of discount (for example, Exchequer Notes), such interest may also be included in book value, if it is the accounting practice of institutions to do so.

Other aspects which impinge on the method of measuring various liabilities and assets are the treatment accorded to provisions for bad and doubtful debts, offsets and items in transit.

Provision for bad and doubtful debts comprise specific and general provisions and interest suspense accounts. These are defined in accordance with a provision in the Companies Act, 1963, and have been deducted from the loans to which they refer.

Offsets: Certain credit and debit balances, which satisfy precise conditions specified by the Central Bank have been offset.

Items in transit: Credit institutions' current accounts and overdrafts have been adjusted for net debit items in transit by deducting 60 per cent of the figure from current accounts and adding 40 per cent to overdrafts.

4. Monetary Financial Institutions

Credit institutions, as defined in Community Law, and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than monetary financial institutions (MFIs), and, for their own account (at least in economic terms), to grant credits and/or make investments in securities.

5. Credit Institutions

The definition of credit institutions corresponds with that of the EEC First Banking Directive. In the Irish case, resident credit institutions comprise licensed banks, building societies and credit unions.

6. Government entities

6.1 General Government comprises all institutional units under public control that are principally engaged in: i) the production of goods and services not usually sold on a market; and/or ii) the redistribution of national income and wealth. They are mainly financed by compulsory payments by the population. General Government is sub-divided as follows:

(i) central government: all administrative departments, agencies, foundations, institutes and similar state bodies, whose competence extends over the whole economic territory.

(ii) other general government comprises state/regional government (institutional units exercising some of the functions of government at a level below central government but above local government); local government (administrative department, agencies etc. whose competence covers only a restricted part of the economic territory; and social security funds (schemes whose principal objective is to provide social benefits to the population).

The Irish Central Government includes all government departments, the National Treasury Management Agency (NTMA) and the Post Office Savings Bank (POSB).

7. Other resident (non-Government) entities

Other resident (non-Government) entities are personal and corporate clients, credit unions, commercial State-sponsored bodies, hire-purchase and other finance companies. They do not include the Central Bank, the General Government or credit institutions.

8. All Credit Institutions: Aggregate Balance Sheet — Liabilities

8.1 *Capital and reserves* comprise all capital (including capital contributions, i.e., payments into the reserves of a reporting institution by its parent for no consideration, which are not repayable except at the option of the reporting institution), reserves (except taxation reserve), accumulated retained profits, preference shares and subordinated loan capital, including floating rate notes.

8.2 *Deposits from credit institutions and other MFIs (excluding Central Bank)* comprise all funds placed with reporting institutions by monetary financial institutions. It includes: current accounts, money market deposits and other term deposits of MFIs with the reporting institution.

8.3 *Deposits from Central Bank* comprises drawings on the European System of Central Banks' Marginal Lending Facility, sale and repurchase agreements and other advances extended by the European System of Central Banks or other central banks.

8.4 *Deposits from General Government* comprises overnight (current) and deposit account balances held by the General Government (including government departments and the National Treasury Management Agency) with credit institutions.

8.5 *Deposits from other residents* comprise overnight (current) accounts and deposit accounts held with credit institutions by resident entities, as defined in item 7.

(i) *Overnight accounts* comprise demand deposits, including those bearing interest, which are transferable by cheque or electronic equivalent, and suspense accounts. This item is reported net of the adjustment for items in transit, as defined in item 3.

(ii) *Agreed maturity* comprise non-transferable deposits which cannot be converted into currency before that agreed fixed term or which can only be converted into currency before that agreed term provided that the account holder is charged some kind of penalty.

(iii) *Notice* comprise deposits which are without any agreed maturity and cannot be converted into currency without a period of prior notice, before which the conversion into cash is not possible or possible only with a penalty.

(iv) *Repurchase agreements* comprise funds received as part of 'repo-like' agreements. These agreements involve the receipt of cash by the reporting institution in exchange for securities with a simultaneous commitment to reverse the transaction at a future date. 'Repo-like' agreements include genuine repos, sale and buy-backs, and securities lending agreements with cash collateral.

8.6 *Debt securities issued* comprise funds received in exchange for non-equity debt securities issued by the reporting institution. Such instruments are usually negotiable and traded on secondary markets, and do not grant the holder any ownership rights over the issuing institution. All non-equity bearer securities which have been issued by the reporting institution are reported here, e.g., all commercial paper, certificates of deposit, notes and bonds which have been issued by the reporting institution to non-Government entities or in bearer form.

8.7 *Remaining liabilities* are the sum of all other liabilities of credit institutions. These include accrued interest payable, taxation provisions and reserves, sundry credit items such as: accrued expenses or net credit balances on accounts relating to the operating costs of the reporting institution such as salaries, wages, rent, rates, stationery, heating and lighting, insurance, stamp duty, PAYE, VAT, etc.; any gross credit balances on impersonal accounts not relating to customers' funds; any leasing rentals paid in advance by customers; any commissions and any net liability to non-resident offices.

9. All Credit Institutions: Aggregate Balance Sheet — Assets

9.1 *Holdings of notes and coin* comprise holdings of cash at branches and at the head office of the reporting institution. Cash in transit between branches and head office and cash held in ATMs are included.

9.2 *Loans to credit institutions and other MFIs (excluding Central Bank)* comprise all funds placed by reporting institutions with monetary financial institutions. It includes: current accounts, money market deposits and other term deposits of the reporting institution with MFIs.

9.3 *Balances with Central Bank* comprise any deposit which the reporting institution must maintain with the Central Bank of Ireland pursuant to the European Communities (Deposit Guarantee Schemes) Regulations, 1995 and funds placed by reporting institutions in their reserve requirement deposit accounts. It also includes discretionary term deposits, overnight and current/settlement account balances and any special supplementary deposits which reporting institutions have been requested to place with the European Systems of Central Banks or other central banks.

9.4 *Loans to General Government* comprise credit extended by credit institutions to General Government including advances under revolving credit facilities.

9.5 *Loans to other residents* comprise all forms of lending, i.e., funds lent by the reporting institution which are not evidenced by negotiable documents, to resident entities, as defined in item 7. Lending to credit institutions, the Central Bank and Central Government is excluded. All loans are reported net of any provisions for bad and doubtful debts and net of any unearned interest and charges.

(i) *Overdrafts* comprise utilised facilities granted by way of accommodation to clients on accounts which show frequent fluctuations between debit and credit balances. Such facilities are usually negotiated for a period of one year and are repayable on demand. Only debit balances are reported here. This item is reported net of the adjustment for items in transit, as defined in item 3.

(ii) *Repurchase agreements* comprise funds advanced under 'reverse repo-like' agreements. These agreements involve the lending of cash by the reporting institution in exchange for securities with a simultaneous commitment to reverse the transaction at a future date. 'Reverse repo-like' agreements include genuine reverse repos, buy and sell-backs, and securities borrowing agreements with cash collateral.

(iii) *Loans up to and including one year* comprises loans, other than overdraft facilities, with an original maturity of up to and including one year. Any loans to resident entities, as defined in item 7, at a money-market rate and with an original maturity of up to and including one year are reported here.

(iv) *Term/revolving loans* comprise loans which are repayable by negotiated amounts and which at the time when they were originally contracted (or renegotiated if applicable) had a maturity in excess of one year; loans to resident entities, as defined in item 7, at a money-market rate and with an original maturity of more than one year; loans which are rolled over after specified periods under loan agreements which at the time of original contraction (or renegotiation if applicable) are for periods in excess of one year; instalment-credit type financing with fixed monthly repayments whereby, as the monthly payment reduces the amount outstanding on the loan, the borrower may obtain further advances by topping up to his credit limit without increasing the amount of his monthly payment; and aggregate amount of net indebtedness of credit-card holders arising from the usage of credit cards.

(v) *Instalment-credit/Hire-purchase/Leases* comprise agreements where the amount borrowed is repayable with interest by equal instalments over an agreed period. In the case of hire-purchase agreements ownership remains with the reporting institution until the customer has paid the required number of instalments and exercised his right to purchase the goods. In the case of instalment-credit agreements ownership of the goods passes to the customer from the supplier, with the reporting institution making its advance on the completion of the documentation. Unearned interest and charges are not included. In the case of leases, the lease transfers substantially all the risks and rewards of ownership of the asset to the leasee. It is presumed that such a transfer of risks and rewards occurs if at the inception of the lease the present value of minimum lease payments, including any initial payment, amounts to substantially all (90 per cent or more) of the fair value of the leased asset. Unearned interest and charges are not included.

(vi) *Residential mortgages* comprise lending to private individuals for house purchase, repair, development or improvement, secured by a mortgage on the property which is or will be occupied by the borrower or which the borrower will rent out for residential purposes. This includes mortgages, for example, for holiday or second homes. 'Top up' mortgages or 'equity release' mortgages, whereby a mortgage is increased to allow funds to be used for purposes other than purchase of residential property are not included. Such mortgages are reported under Other Mortgages.

(vii) *Other mortgages* comprise commercial mortgages and all other loans secured by mortgage on property, other than those mentioned above.

(viii) *Other loans and securities issued* comprises all other forms of lending by credit institutions to non-Government entities.

9.6 *Holdings of securities* comprise funds lent in exchange for non-equity debt securities. Such instruments are usually negotiable and traded on secondary markets, and do not grant the holder any ownership rights over the issuing institution. The category *Issued by general government* includes *Exchequer Notes* and other government *Securities* (stock) held by credit institutions, including any government securities lent by reporting institutions as part of sale and repurchase agreements or securities lending agreements.

9.7 *Shares and other equity* comprise holdings of securities which represent property rights in corporations. These securities generally entitle the holders to a share in profits of the corporation or share in their own funds in the event of liquidation.

9.8 *Fixed assets* comprise premises, equipment, furniture, fixtures and fittings, company cars, etc., owned by reporting institutions for their own use. These assets are reported net of accumulated depreciation.

9.9 *Remaining assets* are the sum of all other assets of credit institutions. These include accrued interest receivable, sundry debit items such as: prepayments or debit balances on operating accounts of the reporting institution such as salaries, wages, rent, rates, stationery, heating and lighting, insurance, stamp duty, PAYE, VAT, etc.; any net claim on non-resident offices.

10. Retail Clearing Institutions: Aggregate Balance Sheet

The items reported in this balance sheet consist of the items defined for all credit institutions, reported for retail clearing institutions only.

11. Non-Retail Clearing Institutions with Predominantly Domestic Business: Aggregate Balance Sheet

The items reported in this balance sheet consist of the items defined for all credit institutions, reported for non-clearing institutions with predominantly domestic business only.

12. Non-Retail Clearing Institutions with Predominantly Foreign Business: Aggregate Balance Sheet

The items reported in this balance sheet consists of the items defined for all credit institutions, reported for non-retail clearing institutions with predominantly foreign business only.

13. Mortgage Lenders: Aggregate Balance Sheet

The items reported in this balance sheet consist of the items defined for all credit institutions, reported for mortgage lenders only.

T +353 1 224 6278 **F** +353 1 671 6561 www.centralbank.ie publications@centralbank.ie

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

PO. Box No 559,
Dame Street, Dublin 2, Ireland